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CHAMBERS'S INCOME-TAX GUIDE

FOURTH EDITION

COVERING 1920 BUDGET

**ENLARGED AND EXTENSIVELY REWRITTEN
THE FACTS, FIGURES, AND ILLUSTRATIONS COVER ALL
LIABILITIES AND CLAIMS UP TO DATE**

**The New 1920 Tax Code
Rules and Limits of Liability
How to Secure Allowances
How to Obtain Repayments**

SPECIAL CHAPTERS ON

Professional Men

Non-Residents

Farmers

Double Empire Taxation

Weekly Wage Earners

Super-Tax

By JOHN BURNS, W.S.

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PREFACE.

For this Fourth Edition it has been necessary practically to rewrite the book. That has resulted from the fact that the whole framework of the income-tax rules has been changed by the 1920 Budget. The same methods of treatment have been adopted as in the previous editions. In particular there are again presented, in all directions, copious illustrations of concrete examples worked out in figures. It is known that similar illustrations have in the past been found helpful by the non-expert.

Two of the changes which have been introduced in the tax code are—an entire recasting of the relief from double taxation within the Empire; and the long-overdue and very welcome admission of British subjects, wherever resident, to rights of relief, partial or total, from British tax on United Kingdom income, according to their true income position. These are matters of great importance, involving large sums, and affecting a large number of people widely distributed throughout the world. They are dealt with in considerable detail in Chap. 18 under the title of ‘Home, Dominions, and Foreign Countries.’ In that chapter the opportunity is taken to give a somewhat full statement of the whole position, in relation to British tax, not only of (1) persons resident in the United Kingdom, and entitled to income from the Dominions or from foreign countries, but also of (2) persons resident in the Dominions or in foreign countries, and entitled to income from the United Kingdom, whether it has borne only British tax or both British and Dominion taxes; not omitting (3) the peculiar position of the Isle of Man and the Channel Islands.

JOHN BURNS.

4 WEMYSS PLACE,
EDINBURGH, *September 1920.*

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THE 1920 RULES.

Allowance.	Amount.	Rate per £.	Tax Relief.
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2. Marriage . . .	225	6s.	67 10
3. 'Housekeeper' . .	45	6s.	13 10
4. Children :			
One	36	6s.	{ 10 16
Two	63		{ 18 18
Three	90		{ 27 0
Four	117		{ 35 2
Five	144		{ 43 4
Six	171		{ 51 6
Seven	198		{ 59 8
Eight	225		{ 67 10
5. Dependent Relatives :			
One	25	6s.	{ 7 10
Two	50		{ 15 0
Three	75		{ 22 10
6. Rate Relief . . .	225	3s.	33 15

CHAMBERS'S INCOME-TAX GUIDE.

CHAPTER 1.

DUTIES AND RIGHTS.

IN presenting this little book we recognise it as our duty to try to make as plain as possible a subject which is in itself rather complicated, and which may appear more complicated than it is to many people not much accustomed to deal with accounts and figures. We shall do what we can to discharge that duty, and accordingly it is our right to expect that our readers will take time and give a little quiet consideration to the matter, without which neither they nor we can succeed.

Again, it is the duty of the citizen, whether man or woman, to the State to make a full and true disclosure of income, and to pay, without evasion, the amount of income-tax which is due according to law, totally regardless of his or her individual views or prejudices as to whether the law is just or unjust, sensible or the reverse. To do otherwise is dishonest. It is also dangerous, for the penalties are heavy and serious. Frankly, we believe that not many people would wish to withhold any payment which is due to the Exchequer, and of the inglorious exceptions not a few would not dare. But then, equally, it is a duty to one's self and one's family to see that the balance shall incline neither to one side nor to the other, and that there shall be no overpayment of the tax; or if that cannot in the first instance be avoided, then that it shall be put right by a refund of the excess.

Now this brings us to our objects. These are to state and exemplify, in simple form and language, how the individual shall secure—

A. **Prevention**—namely, that, if possible, he or she shall not, directly or indirectly, pay or be charged any income-tax beyond what is due. And—

B. **Cure**—namely, the repayment by the Inland Revenue authorities of any excess payment or charge.

In this, as in all other relations, prevention is better than cure. The reasons in this case are:

1. If you do not pay the tax, you cannot forget to get it back.

2. You do not lie out of the money. This means that you avoid loss of interest on the amount involved. This interest expressed in figures would usually be almost a trifle, though even it, when reckoned on the many thousands of cases, would come to a good deal. But it means far more than that to many a modest household, where the money is required to meet current outgoings. In passing, it may be pointed out that this reason is equally strong in favour of frequent claims for repayment when these are necessary.

3. You avoid the trouble and possible expense of obtaining repayment.

The Multitude of Claimants.—But while universal prevention, and therefore no occasion for cure, is a consummation devoutly to be wished, it is in a vast number of cases impossible of attainment. The explanation of this turns partly upon the distinction between ‘earned’ and ‘investment’ incomes, which is explained on p. 15; partly on the principle known as ‘taxing at the source,’ which means that if you lend £50 to a company on deposit, you receive, not the agreed amount of interest, but that sum less income-tax; and partly on the principle known as ‘graduation of taxation,’ which means, in plain language, that people shall be taxed according to their wealth—the more they have, the more they shall pay. Of course, in any case, a man with double your income would pay double your tax; but that is not all. The man with

double your income pays *at a higher rate* than you do. But then the company to which you lent the £50 may have borrowed an equal sum, or more, or even less, from a man or woman with an income double, or ten times, yours. Now, the secretary of that company cannot be expected to know, and you would not wish that he should know, all about your income; so he just treats all his depositors alike, and deducts from each the very highest rate of income-tax. In this way it comes that the interest on your modest deposit of £50 is paid to you, at present, after taking off income-tax at the high rate of 6s. for each £1 of interest, though your total income may be of such amount that you are liable for no tax at all, or, at any rate, for only a much lower rate than 6s. Now, do not blame the secretary; he is only doing his duty. The remedy is a claim to be made by you to the Inland Revenue authorities for repayment of the tax which has been taken off your interest, or so much of it as ought to be repaid according to the amount of your income and the other circumstances of your case; all which we hope to clear up for you before we are done.

Prevention is far more easy to apply in the case of 'earned' income. It is not impossible even in the case of 'investment' income, as we shall show. But still the above very simple illustration shows what a multitude of people have both a right and a duty to see that, while they pay, they do not overpay.

Indeed, it is important to notice that under the new 1920 code the area of relief is greatly extended. That results from the fact that the various allowances are now given without any limit of income. For instance, in previous years a person who had an investment income over £2000 had to suffer the full 6s. tax without any modification; now the same person has important rights of relief which may require a repayment claim. All this is explained in detail in subsequent pages.

CHAPTER 2.

THE SCHEDULES AND ASSESSMENT BASES.

THE STATUTORY SCHEDULES

THERE is only one income-tax, but it is levied under five 'Schedules'—A, B, C, D, and E.

Schedule A.—This is often called the 'landlord's property tax.' It applies to ownership of lands, buildings, &c. in the United Kingdom. See Chap. 6.

Schedule B applies to profit from the occupation of land in the United Kingdom. It is often called the 'farmer's tax,' but it extends beyond agricultural and pastoral holdings; and, on the other hand, some aspects of farming industry are charged under Schedule D. See pp. 94, 101–2.

Schedule C is the one of which we shall hear least. Yet it applies to a large annual income, for it covers interest and dividends payable in the United Kingdom out of the public funds of the United Kingdom or any foreign state.

Schedule D is often called the 'trader's tax,' but it is far wider than that indicates. It applies to:

1. Profits accruing to a person (including firms and companies) resident in the United Kingdom from a trade, profession, employment, &c. carried on in the United Kingdom *or elsewhere*.

2. Profits accruing to any person, though *not* residing in the United Kingdom, from any property in the United Kingdom, or from a trade, profession, employment, &c. carried on in the United Kingdom.

3. Interest of money and other annual profits not charged under any other Schedule.

Schedule E applies to salaries, annuities, &c. payable (1) by the Crown, or out of the public revenues of the United Kingdom; or (2) by municipal and other corporations; or (3) by public companies, including companies registered under the Companies Acts; but see p. 24.

Bases of Assessment.—For taxation purposes the amount of the income is arrived at in several different ways in the case of different kinds of income. Thus it may be:

1. **The Year's Income**—that is, the income received in the actual year of assessment. Now, as the return of income has often to be filled up and sent in nearer to the beginning than to the end of the tax year, it is obvious that any figures stated must be subject to correction and may be very much of an estimate. You must just do the best you can, but keep in view that any material error may be capable of correction later. When the contrary is not stated, it will be understood that in the following pages this is the basis of assessment which is intended.

2. **Last Year's Income**—that is, the income received in the year immediately preceding the year of assessment. Thus, if the tax year in question is 1920–21, where this basis holds, the figure to be put down would be the amount received in the year from 6th April 1919 to 5th April 1920. When this basis applies it is specially so stated in the following pages. One or two things have to be noted. Take bank interest received, which is one item of income assessable on this basis. There may be such income this year, but none last year; then none goes into this year's statement of income. On the other hand, there may have been such income last year, but none this year; in that case, again, nothing falls to be inserted in this year's statement of income. At least, that is the position on the latest decision of the courts, though it is right to say that it reverses a previous contrary decision, and the question may be carried further. As it stands at present, the view is that the reference to last year's income is merely as a

measure of this year's income of the same kind, if there be any income of that kind this year; and accordingly (1) if there is no such income this year, then the measure of last year's income cannot be invoked; and (2) if there is such income this year, but there was no income of the same kind last year, then the result of a reference to last year is that the measure yields nothing.

Changes of investment may cause trouble. Thus you may have had a large sum in bank on deposit last year, and this year it may be on mortgage; if this year you still receive some bank interest, that results in putting into this year's statement of income practically double the amount of a year's income from the capital in question. But there is an exception in the case of transfers between different Government securities, but only if these take place by the surrender of a former security in exchange for a new one on the original issue of the latter. If the income of the old security was paid without deduction of tax, while the income of the new security is paid less tax, the result might be to crowd two years' income of the same money into one year's return. In such circumstances relief may be obtained, but only if the combined incomes of the two securities exceed a full year's income of the old security. No part of the whole income is to escape taxation, but the excess over one full year's income of the old security, while itself taxable, is not to subject the investor to any scale of taxation which would not otherwise have attached to him. This was more important under the rules which applied last year, but it may still be useful. Thus, if you had last year a Government security on which tax was not deducted, and which yielded £20 of income, and if this year you have exchanged it into a new Government security on the original issue of the latter, on which this year your income is £20 less tax, that means that £40 should go into this year's statement of income. Now, it may be that, with this £40 included, your 'taxable

income,' after all allowances are taken off, comes out at £245. The result of that in ordinary course would be that you would pay 3s. per £ on £225 and 6s. per £ on the balance of £20. But then, if it had not been from this inclusion of two years' income of the same money, the figure would have been only £225 and the only rate of tax 3s. The relief that is given is that the whole £245 is taxed at 3s. The same thing may come up in regard to super-tax, as to which see p. 218. But these rules operate only if the tax-payer so requests, and it has very recently been suggested from the bench of the Court of Appeal that it may not be in his interest to do so, if, for instance, he does not this year have any income from Government stock received without deduction of tax, the suggestion then being that this year he is not taxable on last year's income of that nature. It must be admitted, however, that the matter has got into some confusion owing to the exchanges of securities, the rules laid down by Parliament, and the remarks of the judges.

Again, a sum of capital may have been on mortgage last year, and this year it may be in bank on deposit. In that case your statement of this year's income includes no income at all from that sum; for last year's mortgage interest went into last year's statement, and this year's bank interest will go into next year's statement.

3. Average.—This means that the income is assumed at an amount equal to the average of a certain number of years preceding the year of assessment. Far the most important is the three years average for business profits, which is fully dealt with in Chap. 7; but there are certain other averages, some of which are mentioned in the following pages.

4. Farming.—Here we have the arbitrary basis of double the rent. See Chap. 10.

CHAPTER 3.

YOUR CASE.

THE questions for you are—What? and How? The first is the question of substance. The answer to it will tell you to what income-tax relief you are entitled, if you are entitled to any. The second is the question of machinery. The answer to it will tell you how to set about obtaining what is due.

I. WHAT?

In the actual position of income-tax administration as now developed it behoves you to consider this closely—what relief are you entitled to? This chapter is intended to provide an introduction to the different branches of the subject. You know your own circumstances, and we do not. But the following paragraphs are guide-posts to show both the ends and how to reach them. The guide is made more minute in the later chapters, in which also, after the manner of other guide-books, illustrations are added.

Exemption (Chap. 12).—For a married couple the exemption limit is £225, even if the income is wholly ‘investment;’ £250 if wholly earned; somewhere between these figures if partly earned and partly investment; and possibly as high as £300 if the wife has an earned income. For all other people £135 and £150 are substituted for the above £225 and £250. If your income does not exceed these limits you are liable for no tax. If any is charged, you must get off or get it back from the Inland Revenue if, or so far as, you do not reimburse yourself by deducting it from mortgagees or other parties. Further, the figures stated are the nominal limits; but in any particular case the ‘effective’ limit of exemption may be much higher

owing to the various allowances noted below, or some of them, having to be added on.

Abatement.—Apart altogether from the special allowances which are mentioned below, every one who is not exempt is entitled to a certain fixed general allowance. For married couples it is £225, or as high as £270 if the wife has an earned income. For all others it is £135. These sums go tax free. That relief may have been obtained by so much of the income not having been taxed, but it may be that a repayment claim is required. This holds no matter how large the total income may be.

Earned Income (Chap. 12).—The relief in respect of earned income is another benefit to which every one with an earned income is entitled, no matter how large the income, and though he can make out no claim to any of the special allowances which are noted below. It is thus another general or absolute relief. It takes the form of knocking off one-tenth of the earned income before bringing it into the taxation account, but the sum knocked off is never to exceed £200. In this way this one-tenth, up to £200, escapes income-tax.

Rate Relief (Chap. 13).—This is the graduation principle. The first thing is to find the amount of your ‘taxable income.’ That is done by taking off the earned income relief, and the general and special allowances; then what remains is the ‘taxable income.’ Of it the first £225 is liable at only one-half of the standard rate of tax (at present 3s.), and the balance, if any, at the full standard rate (at present 6s.). This is the third general or absolute relief, the right being independent of children, dependent relatives, life assurance, or any specific ground. It holds no matter how large the total income is.

We proceed now to mention the special allowances. Full details are given in the subsequent chapters, but sufficient indications follow here to put you on the right road. It may be useful if we state at the outset that

the specific wife allowance has ceased to exist, the reason being that it is merged in the marriage allowance already mentioned; but, of course, it still holds as regards claims for the two years 1918-19 and 1919-20.

Children (Chap. 20).—For each child, or step-child, or adopted child under sixteen, you get the following sums free of tax—£36 for a first or only child eligible, and £27 for each other child. Further, the age-limit of sixteen does not hold in the case of full-time pupils and students. There is no income-limit.

Certain Housekeepers (Chap. 20).—A widower who is entitled to the children allowance as just stated is further entitled to £45 of income free of tax in respect of any female relative of his own or of his late wife resident with him for the purpose of taking care of the child or children; and if no such relative is available, then any other female, resident and maintained for the same purpose, qualifies for this allowance. A widow in the same position has a corresponding claim. And it applies even in favour of an unmarried person who has residing with him, and maintains, his mother or other female relation to take care of brothers or sisters, for whom he is entitled to claim as 'adopted' children. There is no income-limit.

A tax-payer who is aged and infirm, and requires to keep a daughter at home to look after him or her, obtains an allowance of £25 free of tax. No income-limit. This is new as from April 1920.

Incapacitated Dependants (Chap. 20).—You are entitled to £25 of income free of tax for each relative incapacitated by old age or infirmity who is dependent on you and whom you support. The dependants are, of course, not limited to children, but they include children, with the result that the age-limit of sixteen is removed in the case of sons and daughters who are physically or mentally incapacitated. If the dependant is the tax-payer's mother she need be neither old nor infirm. There is no

limit on the income of the tax-payer, but the dependant's income must not exceed £50.

Life Assurance (Chap. 21).—You are entitled to either total or partial relief in respect of what you pay for assurance on the life of yourself or your wife. There are numerous restrictions, but in no case can any premiums count for relief if, or so far as, the total exceeds one-sixth of your income. The claim is available no matter how large the total income is, but the rate at which the relief is given may vary according to the amount of the income.

Bank Interest.—If you have had money borrowed from a bank, stockbroker, or discount house, you will probably find that you have paid interest on the loan in full without deduction of tax in your favour. You can get this tax allowed to you by the Inland Revenue. Much the same may hold in the case of a loan from a Building Society (Chap. 23).

Expenses.—If you own land, or London houses rented at £105 (£90 in Scotland and £78 elsewhere) or less, you may not have obtained all you are entitled to in the way of allowance for repairs, insurance, and management. In much the same way, if you are a clergyman, or a commercial traveller—and there are other cases—you may have paid tax on your income without having had an opportunity of deducting necessary expenses of earning it. In all these cases claims may be made (see p. 37, and Chaps. 7–9).

Now, after reading to this point you must reflect whether you have paid more than you are liable for. Have you paid on too large a sum, or have you been charged at a rate higher than is appropriate to your income? If you have, the excess is repayable to you. If you own any houses, or have any investments in shares or debentures, it is probable that the answer must be—yes. That means a claim for repayment. Next, have you got the full benefit of all the allowances to which you are entitled? You

cannot safely arrive at any conclusion on those heads without reading at least some of the subsequent chapters.

It is convenient to set out here, in alphabetical order, a complete list of all deductions, allowances, and reliefs, with references to the pages where these are fully treated.

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II. HOW?

Let us assume either that you are satisfied that you have paid too much, or at least that you are not satisfied that you have not. How then to set about putting it right? You can hardly be better advised than to write

to, or to call on, the local Inspector of Taxes. You can tell him your case, and ask for his prescription. It takes the shape of a printed form. That form, no doubt, contains full directions, but you will derive great additional assistance from an interview with the Inspector, if you can manage that. He knows all about it, and he puts his knowledge at your disposal to aid your inexperience. And, remember, he accords consultations, advice, and prescriptions free, gratis, and for nothing. When he writes to you he usually supplies you with reply stationery, and sometimes (we believe always, if requested) he provides post-free reply envelopes.

Past and Future.—You will, of course, ‘look before and after.’ The first thing undoubtedly is to obtain repayment of past excess payments. You can usually go back for the three years which ended last April.* The Inspector will give you the necessary form.

He will also give you a form which may enable trouble to be saved in the future by part of your income being freed from taxation; and, of course, to the extent to which you do not pay, you will not require to ask the Revenue to repay. You can easily understand that if two sums of £20 ought each to be charged tax at 3s., and if one of them is charged at 6s. and the other is charged nothing, justice has been done. That is how the idea of prevention works. Sometimes it can be worked, and sometimes it cannot. The inscribed and registered war loans and bonds greatly aid these arrangements. Read Chap. 15. Then, if necessary, see the Inspector, and tell him that you have been giving thought to the future and are anxious to save him trouble, and would like to see some way arranged by exempting part of your possessions, and he will be even specially willing to accommodate one who

* Note, however, that all the statements and figures in this chapter are applicable to the year 1920–21. Those for the three previous years are given in Chap. 15.

shows himself or herself so considerate. He will give you another form, if in your case his expert experience tells him that your suggestion can be carried to fruition.

Even if it can, it may not in future give you absolutely all you require. You may still need to send in claims for repayment. Remember, then, that these can now be dealt with *twice a year*.

But, while the Inspector has both a duty and a desire to aid you, it is reasonable that the demands upon his time should be moderated as far as possible. The best means to that end is that, having obtained from this chapter a general idea of what you need to aim at, you should, before applying to the Inspector, read and consider the chapters which follow, except any which obviously cannot apply to 'Your Case.'

CHAPTER 4.

CLASSIFICATION AND COLLECTION.

CLASSIFICATION relates to the various divisions which the law makes between one income and another, and between different parts of the same income. On it partly depends the amount of tax for which you *are* liable. The subject of collection of the tax includes the methods of rectifying over-collection. It accordingly shows the machinery for putting yourself right if you find that you have paid tax for which you are *not* liable.

CLASSIFICATION.

Broadly the only possible distinctions between incomes are according to quantity and quality. Quantity is dealt with by exemption, and by the various allowances. These subjects are treated in Chaps. 12, 13, 14, 20, and 21.

The principal distinction of quality is according as the income is 'earned' or 'investment.'

Earned Income.—In a sense any investment 'earns' interest or dividend, but that is not the meaning of the word for income-tax purposes. The idea is income earned by personal exertions, not by capital. But in the case of a business no distinction is drawn between the earnings of the capital employed in it and the exertions of the business man or men whose business it is; all is classed as earned income. In saying this, we refer to individuals carrying on business alone and to partnerships, but not to incorporated companies. In companies the salaries of managers and managing directors and directors' fees are earned, but dividends are not. And in all cases what a 'sleeping' partner draws is treated as investment income;

but slight personal attention to the concern will entitle the partner's whole share of the profits to pass as earned. Profit-sharing bonuses to employees are earned income unless they take the form of dividends on shares in an incorporated company, when they may be classed as investment income. Further, the earned income privilege is extended to

any pension, superannuation or other allowance, deferred pay, or compensation for loss of office, given in respect of the past services of the individual, *or* of the husband or parent of the individual, in any office or employment, or given to the individual in respect of the past services of *any* deceased person, whether the individual, or husband or parent, shall have contributed or not.

The importance of this is that the tax benefit attaching to earned income is extended to persons who do not and did not earn it—for example, widows and children in receipt of allowances given for services rendered by the husband or father, or parents or sisters in receipt of allowances given for services rendered by a deceased son or brother. Lump sums paid as gratuities to retiring employees may be deductible as expenses of the business, but they are not taxable income of the receiver. If invested, the resulting income will be his investment income; and in like manner income from investments is investment income although the invested money was saved out of earnings. Civil-list pensions are earned income. As to trust cases, see p. 145, and company cases, p. 217. When the guardian of a person of unsound mind carried on the latter's business it was decided that the profits were investment income; but much may depend on the exact facts, and it cannot be said that the profits must be treated as investment income merely because the person whose business it is may, for part or the

whole of the year, be in retirement on account of the state of his bodily, mental, or financial condition, or imprisonment, and even though there may be a guardian or manager in office.

The nature and operation of the relief to earned income are brought out in Chaps. 12 and 25 and elsewhere throughout the book.

COLLECTION.

Closely connected with the aim of prevention instead of cure, as urged on p. 2, is the giving of a little, but sufficient, consideration to the three channels by which income-tax is collected. These are:

1. **Direct Assessment.**—This is the demand note with which most of us are familiar requiring us to pay a certain amount of income-tax, by a stated date, to the Inland Revenue authorities. This relates to business profits, a house which is your own property and in which you reside, other houses owned and let by you if you in these cases request to be assessed direct instead of through the tenants, interest on the 5 per cent. War Loan stock, interest received for money deposited in bank, and many other forms of income. If you satisfy the authorities through the Inspector of Taxes that, from the amount of your income and other circumstances, the result of forcing you to pay that sum would simply be that you would have a claim for repayment of the whole or part of it, they will, for their own convenience as well as yours, take steps to obviate this double dealing, and will cancel the assessment altogether or in part, so as to keep the account between you and the Exchequer as nearly right as may be.

2. **Indirect Assessment.**—This is what is known as taxation ‘at the source.’ If you invest £100 in a company in the form either of a loan or of shares, you will receive the income from that investment after tax has been deducted by the company. If you lend £100 on mortgage, the

borrower takes off the tax before he pays you the interest. It does not require to be explained to you that the people who thus deduct tax from you make no profit out of doing so. In one form or another they pay it over to the Exchequer. They are, in fact, compulsory and unpaid agents of the Exchequer for the collection of the tax. There is no use in pretending to blink the fact that one reason for this system of collecting 'at the source' is the fear that if people were allowed to get the whole money into their own hands, and were then asked to say how much they had, and to pay tax on their own declared figures, there would be a loss to the Exchequer through evasion. There is, on the other hand, no doubt that collection at the source has in the past led to the Exchequer receiving and retaining a great deal of money which ought to have gone back to people who had omitted to apply for the abatements to which they were entitled. It is obvious that, as the person who pays the income to you must, for his own protection, deduct the tax, there is no way of cancelling or restricting this deduction in advance. It may, of course, be that you can, and do, receive such rectifications in advance under the method No. 1 above, or the method No. 3 below, or both, as are sufficient to rectify any over-payments of tax through collection at the source. But so far as that is not so, there is usually nothing for it but a claim for repayment. Even to this, however, there are exceptions. Thus there is a special form (38EC) for the beneficed clergy of the Church of England, with the object of discharging or reducing the tax, not only on the rectory, &c., but also on grants from the Ecclesiastical Commissioners and the Governors of Queen Anne's Bounty. And arrangements can be made between the Inland Revenue authorities, an insurance company which has granted an annuity in favour of a certain person, and that annuitant, by which the annuity is paid without deduction of tax.

3. Assessment on Landlord through Tenant.—If you own real estate (heritable property) and let it to tenants, they are charged income-tax, and have to pay it on your account, deducting it from the rents which they pay to you. This is clearly collection at the source, for you do not get the rents except under deduction of the tax. In this way it closely resembles method No. 2 above; but, on the other hand, it resembles method No. 1 above in the following respects: (1) it is now, as a rule, charged at the proprietor's true tax-rate instead of at the standard rate; and (2) it will be withdrawn altogether, or restricted in amount, if you satisfy the Inspector of Taxes on two heads—first, that you are entitled to a certain amount of abatement; and, second, that that abatement can be most conveniently given in this form.

If the proprietor prefers to be assessed direct, that will be done on his application to the clerk to the District Commissioners. And in any case the proprietor is assessed direct if (1) the rent is under £10, or (2) the premises are let for less than a year, or (3) in different apartments and occupied by two or more separate tenants.

It has very recently at last been definitely decided that, when the assessment is through the tenant, he must deduct the tax from the first rent payment which he makes to the landlord after the date on which he pays the tax, or otherwise he loses altogether his right to deduct the tax from the rent.

Half-Yearly Collection.—When your income consists of interest or dividends, these are probably received half-yearly or quarterly, less tax, so in that way you really pay the year's tax by instalments. Further, the tax on rents, business men, farmers, and employees is payable one half on or before 1st (in Scotland 2nd) January in the year of assessment, and the other half on or before 1st July after the expiry of the year of assessment, except in the cases of (1) weekly wage-earners and (2) other

employees from whom tax is deducted at more frequent intervals.

Among the many cases in which the year's tax must be paid in one sum, and usually not later than January in the year of assessment, are (1) interest on war loans and bonds not taxed at the source; (2) interest on money lying in bank; (3) income from foreign securities and possessions and remittances from abroad; (4) companies' profits.

Discount for Prepayment.—Under Schedule D, if the first instalment is paid before 1st January, or the second before 1st July, discount is allowed at the rate of $2\frac{1}{2}$ per cent. per annum.

CHAPTER 5.

STATEMENT OF YOUR INCOME.

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PRACTICALLY the delivery of a full statement of income is forced upon all who are liable for income-tax at all, and upon many who are not liable. The statement of income may be made on any one of the following official forms.

Form No. 11.—If you are engaged in trade or in a profession this form will be filled up by you, and in it you will be able to set out all your claims for allowances. No. 1 is the corresponding form for firms, and No. 12 for those in official employment.

Form No. 38.—This form will not reach you unless you apply for it. The local Inspector of Taxes will give it to you if asked. It suits people who own land or houses or shops. These are assessed through the tenants, and the use by you of this form will secure that in future these assessments are reduced so as to give you the relief to which you are entitled.

Form No. 40.—This is the general repayment form. You must use it if already you have paid tax in excess of your true liability. Nor even as regards the future will Form No. 38 enable you to dispense with No. 40 if you have money invested on mortgage or debentures, or in shares, or in any other form where the person who pays the income to you takes off the tax before he does so. If you claim for wife, children, dependants, or insurance, the composite claim form suits better.

WHAT IS INCOME?

As we are dealing with income-tax, or a tax on income, the first thing is to have a clear idea of what is the income which is to be subjected to the tax.

Individual Income.—For income-tax purposes, there is no general rule of taking the combined incomes of the members of one household as one. The case of husband and wife is special, and is separately dealt with in Chap. 16.

Apart from that case, each individual, man or woman, adult or infant (including ‘infant’ in the natural as well as the legal sense of the word), is entitled to hang by his or her own head. Take the case of two or three sisters living together; it is barely possible that they might make a serious mistake against themselves by thinking that they are bound to treat the combined incomes of both or all of them as the unit. But no; each will set forth her own income, and be entitled to all reliefs accordingly. In like manner, if children have estates or incomes of their own, these do not swell the parent’s income.

Whether Taxed or Untaxed.—The statement must show your whole income. The mere fact that income is taxed before you receive it is no reason for omitting it. Indeed, it should hardly be necessary to inculcate this now, for many people will now fill up the official forms for the

very purpose of obtaining the relief on income from which, before they received it, tax was deducted at 6s., whereas the fact is that they are truly liable for a lower rate only.

Gross Amount.—Unless we had evidence to the contrary, it would be difficult to believe that there could be any doubt as to which figure, the gross or the net, should go down as the amount of the income. It is, of course, the gross. Thus, if you receive a dividend of £7 net, which is £10 after taking off 6s. per £, the income figure which you insert in the official form is £10, not £7.

Commercial or Professional Profits.—The profits, or (if it is a case of partnership) the proper share of them, must appear in the statement of total income made out by the individual person or partner. The case of various special professions and other occupations is dealt with in Chaps. 7 to 11.

In Chap. 7 consideration is given to the important matter of the proper way of handling the profits, or an individual partner's share of them, for income-tax purposes.

Salaries.—Some salaried persons are entitled to the benefit of the three years average. That means that they are assessed, not on the actual salary of the year, but on the average of the salaries of the three preceding years, excluding the actual year altogether. If they are on the up-grade, this average will always be less than the actual year's salary. Thus a cashier's salary may be this year £350; but during the three preceding years it may have been £275, £300, and £325, together £900, which, divided by three, gives an average of £300. As to who are entitled to, or receive, the benefit of the average, the position is: (1) Employees of private persons, firms, and concerns are legally entitled to it. (2) Employees of Government and public bodies, such as Education Authorities, are not entitled to it and do not obtain it.

(3) Principal officers of limited companies, judging by the office, not the salary, are also excluded. (4) As regards minor employees of limited companies, the practice varies in different parts of the country; but the average is very commonly allowed, but not to weekly wage-earners, who are always dealt with on the year's income. As a surviving war concession, those employees who, if continuously at their employment, would have had the average allowed to them, but who served with the Forces, are assessed on the three years average after demobilisation, including the service period in the three years. In those cases separation allowances and grants by employers have to be added to the war pay.

Bursaries and Scholarships held by full-time scholars or students at any school, university, or educational establishment are not 'income' at all. They bear no tax, nor do they augment the (other) income. This from April 1920.

Real and Leasehold Estate—known in Scotland as heritable property. This is fully treated separately in Chap. 6.

Woodlands are also dealt with in that chapter.

Your Home.—The house in which you reside, if it belongs to you or to your wife, must go down in the statement of income, just as though it were let to a tenant. The amount is the net Schedule A assessment.

Official House.—It is not uncommon for a person to be entitled to a residence rent-free as an adjunct to his or her employment. In the vast majority of cases that is a valuable thing to have, but sometimes it is the other way about. But, however that may be in any particular case, that is not the test for this purpose of income-tax. A ship captain's rights of lodging, board, and attendance on board ship, and his uniform, are valuable items, and no doubt save him a good deal, but they are not 'income' for tax purposes. The real reason is that they are not

things which he can turn into money. That is the test in the case of official residences—is the person tied down to personal, probably compulsory, occupation? Or, on the contrary, has he or she the right of letting the house, and so turning the right into cash? In the latter case only must the annual value be included in the statement of income. Free instances are the official residences of university professors, local bank managers or agents, and stationmasters, and the quarters, board, and service provided for resident physicians in official positions. But if any person in such a position is allowed to reside elsewhere, and to receive a money substitute or the actual rent received from letting the house, the cash is part of his income. As to the official residences of clergymen and ministers, see p. 80.

These cases suggest testamentary bequests of the right of rent-free occupation of a house, furnished or unfurnished, but without power to let. Provisions of that nature are not uncommonly created in favour of widows and unmarried daughters. The question arises—is this ‘income’? No one would suggest that the free use of the furniture is income, though it may be valuable. Notwithstanding at least one judicial indication to the contrary, it is thought that the house is not income either. Of course, some one must pay Schedule A tax on it, and, looking to the graduation of rate, it may sometimes be cheaper if the house is treated as income. Further, the beneficiary may have to pay that tax, but that appears to have no bearing on the question whether the house is income of the beneficiary so as possibly to attract super-tax.

Houses in the United Kingdom belonging to the Crown, and occupied by officers of the Crown, are assessed under Schedule A, and the officer in occupation is liable for the tax. The official view is that it follows that the annual value of the house is part of the officer’s income.

Under the new tax system these questions about houses

are not so important as they were. Super-tax is now the chief, if not the only, consideration, and these cases are few.

Money paid to employees who are bound to apply it in purchasing, say, special clothes adapted for their employment has been treated as taxable income.

Casual Income from Land-Rights.—This refers to (1) manorial incidents, (2) the somewhat similar casualties and periodical duplicands in Scotland, and (3) fines upon ‘demise of lands or tenements.’ The first are to be brought into the statement of income at the average of the amounts collected in seven preceding years, the second and third at the amount collected in the immediately preceding year. In the case of No. 3, exemption is given if the amount has been ‘applied as productive capital.’ It is far from clear what is sufficient to earn this exemption; also whether it applies at all in case No. 2.

Dividends ‘free of tax.’ See Chap. 19. :

Co-operative ‘Dividends’ on Purchases are exempt as not being income, and so they do not go into the statement.

Discounts.—To many of our readers it would certainly be misleading if we contented ourselves with stating that discounts received are income and must be entered in the statement. The word ‘discount’ means many different things.

1. In common speech we talk of receiving discount when we pay an account; that kind of discount is not to go into the statement of income. This is one of the grounds on which the exemption of co-operative societies is defended or excused. But in dealing with the accounts of a business, discounts received or allowed are to be brought in.

2. We have lately been very familiar with British (and also French) Treasury Bills. These are a form of investment, the distinguishing feature of which is that the interest is calculated, not upon the sum lent, but upon the amount repaid. Thus you pay £950 to-day to the

Government, and they repay you £1000 a year later. That is your £950 back and £50 increase. This £50 looks like income, and the official view is that it is income, and that you must include it in your statement. The income is held to be received in the year within which the bill matures or is sold. In the event of a sale, the income is not necessarily the whole difference between what was paid and what is received; for you ought to disregard any part of the increment which may be due to fluctuations in the value of money and in the money market, and to reckon as income only what corresponds to interest for the time during which the investment was held.

3. If you buy (as many people do) the debenture of a good company which the present holder requires to sell, and suppose you pay £90 for a £100 4 per cent. debenture due three years hence, the £4 which you draw each year is, of course, income; but equally clearly the 'discount' of £10 is not.

If, and so far as, such discount is taxable, the basis of assessment is the amount receivable, not in the year of assessment, but in the immediately previous year, which may, of course, be nil. And, as already pointed out, the reference to last year is only as a measure for this year, if there be any discount income this year. If not, nothing falls to be entered.

War Securities.—On some of these, if not taken in the bearer form, the interest is paid without deduction of tax at the source, and then there is a direct assessment. The payment of these dividends without taking off the tax goes a long way in many cases towards securing the end of 'prevention' instead of 'cure,' referred to on p. 2, as regards the investor's whole income. Income of this nature received, less tax, is entered at this year's figure; if received untaxed, and then charged direct, the figure you take is that of last year; see the preceding paragraph. In some such cases it is possible for trustees to arrange

with the Department that the trustees shall return the names and addresses of the beneficiaries and the amounts of their dividends, and then the assessment will be on the beneficiaries, and not on the trustees. In some cases this will be very convenient, but the trustees may require to be careful when a change in beneficiaries takes place, and on final distribution of capital. On the latter occasion the position is that provision has to be made for tax on income for a year, or part of a year, at the unknown rate of next year. But the first year of a succession is special in this respect. Thus, suppose in the last year of his life the testator had £500 of such income, he would be taxed on the previous year's figure; but his successor cannot, in the first year after the testator's death, be taxed on last year's £500, for that was not his (the successor's) income.

(War) Savings Certificates.—These represent the form of Government loan under which you pay in 15s. 6d., draw no yearly or half-yearly interest, but at the end of five years receive £1. This addition of 4s. 6d. on the 15s. 6d. is fully 5 per cent. compound interest, free of tax. The interest does not require to be brought into computation for any income-tax purpose. The utmost sum which you are allowed to invest in this way is £387, 10s., which at the end of the five years yields £500 clear; but your wife and each of your children (or you for her and them) may each invest £387, 10s., or any less sum, in one sum or by instalments. And the limit is not enforced when the excess holding is due, not to purchase, but to succession. In the year in which these certificates fall due it will be true and proper to declare that you have made a full and true disclosure of your income although you have written down nothing as coming from these certificates, and have, indeed, omitted all reference to their existence.

Annuities.—As some persons achieve greatness, while others have greatness thrust upon them, so some people purchase annuities, and some (pp. 147, 179) have annuities

bequeathed to them. It is with the purchased annuities that we are here specially concerned. But all annuities are income of the annuitants in the legal and income-tax sense, and income-tax is payable (usually by deduction) on the whole amount of the half-yearly or quarterly payments. In the case of purchased annuities this may seem hard, for no doubt it is true that part of each payment is really capital; but that plea is unavailing against the taxing authorities. When the annuitant proves to the authorities' satisfaction his or her right to exemption, it can be arranged between the company and the Inspector that the company shall pay the annuity without taking off the tax, which may be a great convenience to many an annuitant.

Trust Income.—See Chap. 17.

Bank Interest.—Any interest received by you or your wife on sums placed in any savings bank or any other bank must be put down in the statement. Interest of this kind is usually paid or credited by the bank without deduction of income-tax, but that is not the reason for stating it, for all interest must go down, whether it has already been taxed or not. When received untaxed it will be taxed direct, and then the basis of assessment is *last year's corresponding figure*, as to which see p. 27. As to interest paid to banks, see p. 211.

Single-Ship Companies.—These are companies owning, and trading with, one vessel only. If you own any shares in such a concern, you are, for tax purposes, treated quite differently from a shareholder in any other kind of company. The actual dividends paid by the company are entirely disregarded. The company is, of course, assessed direct on its profits and gains, and you are dealt with as if you owned a certain share in the vessel, instead of certain shares in the company. Thus, suppose the company has been assessed on a statutory profit of £1000, and you own one-tenth of the company's share capital, then,

whether the company has distributed in dividend £1000, or only £500, or nothing, or perhaps £1500, it is assumed that your income from that source for that year is £100, being one-tenth of the company's assessment. But mark, of course, that you have already, through the company, paid all tax chargeable, so that there is no further liability. The rule is as here stated, but it appears that the practice is not altogether uniform throughout the country.

Defaulted Income.—You will not put down any income which you ought to receive, but which you know you will not receive. But, further, perhaps it is not going too far to say you will not put down any income unless you reasonably expect to receive it. In this connection we refer specially only to cumulative preference dividends on shares of companies. If default has occurred, and you have no knowledge of resumption of payments, you are not bound to put down that dividend as income of the year. Of course, if and when you receive the dividends, they will all be under deduction of tax. •

Home Consumption.—Farmers must add to income the value of farm produce consumed in the household during the year if they elect to be taxed on the three years average of profits, or if under Schedule B they claim total or partial repayment on the ground of no profit or short profit (see p. 92). The same rule applies to shops where goods from stock are consumed or otherwise used at home. It also holds in such cases as boarding-schools, hotels, and boarding-houses, but there it is applied by deducting from food expenditure the proportion applicable to the private domestic consumption. But a lawyer does not need to add anything to profits for making his own will, nor a medical man for prescribing (if he does) for his own family.

Allotments.—No one is required or expected to put down as part of his or her income any return from an allotment, whether the return take the form of cash from sales of crop or value of crop consumed at home.

Foreign Income.—See Chap. 18.

Voluntary Allowances or Gifts are not income. The best example of this is when a well-off uncle is in the habit of allowing each of his nieces, say, £25 a quarter. That is no part of these ladies' 'income' for income-tax purposes. A niece who has (other) income amounting to, say, £135, and who thus is in point of fact in receipt of a very certain £235 a year, is nevertheless entitled to exemption; and if the £135 has been taxed before receipt, she is entitled to total repayment. She is in every sense justified in omitting the £100 altogether from her statement of income, and in signing the statement that the £135 is a full disclosure of her income. But the mere fact that payments are voluntary and could not be compelled is not enough to exclude them if the recipient gets them by virtue of holding, or because he holds, a certain office (see p. 85). There are some narrow cases on the facts, but it is impossible here to go into all possible shades of position. The above instances show the principle.

Separation Allowances.—The following are regarded as taxable income: (1) allotments to wives from husbands' pay, as being just part of the pay; (2) separation allowances to wives in respect of their husbands serving; (3) the like to wives on account of young children maintained at home; but not (4) allotments by sons to parents, nor (5) allowances to mothers in respect of sons serving; nor (6) grants from the Civil Liabilities Commission.

War Gratuities.—Right back to 4th August 1914 the following are not taxable income:

1. War gratuities to members of the fighting forces or of the nursing services of those forces.

2. Benefits on demobilisation to officers and members of the W.A.A.C.'s (Q.M.A.A.C.'s), W.R.N.S.'s, and W.R.A.F.'s.

3. Demobilisation payments to employees of the Joint War Committee of the Red Cross and the Order of St John of Jerusalem.

Persons entitled will not receive repayment unless they apply, with full particulars, to the Secretary, Inland Revenue, Claims Branch, Australia House, London, W.C.2.

Wound and Disability Pensions.—Back to April 1918 the following are not taxable income :

1. Wound pensions to members of the fighting forces.
2. Retired pay of disabled officers, and disablement or disability pensions of *other* members of the fighting forces, granted on account of medical unfitness attributable to, or aggravated by, service.
3. Disablement pensions granted to members of the nursing services of the fighting forces on account of medical unfitness attributable to, or aggravated by, such service.
4. Injury and disablement pensions under any scheme to persons (or wives or dependants), not being members of the fighting forces, who are (1) employed by the Admiralty or Army Council in connection with war-like operations afloat or on shore out of the United Kingdom; or (2) employed in connection with cables, telegraphs, or mails; or (3) mercantile marine.

If the retired pay or pension is only partly attributable to disablement or disability, the relief is correspondingly reduced as may be decided by the Minister of Pensions.

Letting Furnished Houses.—The direction in the official form of return of income is: 'Insert profits of preceding year when the amount is fixed and certain; but when amount is fluctuating, insert average profits.' There appears, however, to be warrant for taking the profit of the actual year, and, in fact, that is very often done. For one thing, it is easy to do it in the numerous cases in which the question of taxing such profits arises on a claim, by the party letting, for repayment of tax on other income. Thus, if at the end of the year a claim is put in showing (apart from these profits) an income of £135, and so claiming exemption, the Inspector raises the question of

profit from letting a furnished house for some months in summer. In such cases it is natural, and we believe usual, to take the profit of that actual year. But if that is done it is well to have it made clear, for otherwise there might be a demand for tax in a year when the house has not been let; but in any case such a demand should not be admitted.

The correct view is that liability for tax depends on there being a custom, often amounting, of course, to a trade, of letting the house furnished. An isolated letting should not attract any tax.

When tax is due, the profit is ascertained by taking the gross rents received for house and furniture, and from that total deducting the following items: (1) proportion of rent paid for the same period; (2) the like proportion of taxes and rates; (3) an allowance for wear and tear of furniture; (4) cleaning; (5) advertising, agent's commission, and any other expense of letting; (6) a proportion of fire and any other insurances. These are the usual items, but in certain cases there might be other deductions. For example, the house may be one taken really for the purpose, and much beyond the principal tenant's requirements; possibly even unoccupied except when let furnished. In such a case the rent deduction would need to be much larger than above assumed, and taxes, &c., would follow. Garden maintenance may also be a deduction. So will any necessary costs of disputes with tenants and recovery of rent. But in no case is it allowable to deduct the cost of a house or lodgings elsewhere during the period of letting, or the expenses of travelling back and forward to business, alleged to be caused by having let the house.

Capital Increments.—No one would fall into the error of thinking that if he sold his house in which he had lived for ten or twenty years, and in doing so made a profit of £500, as compared with the price he paid for it, the £500 was profit, on which he was bound to pay income-tax. To

begin with, it would be difficult to reckon up the profit; but, apart from that altogether, the £500 is not profit or income, but is capital. It would, of course, make no difference if the property were houses or shops or anything else instead of the seller's own residence. Nor, again, would it make any difference though he had bought the property only last year or last month. One may perhaps see this even more clearly if he just imagines the case of losing, instead of making, £500; he would be a sanguine, and would soon be a disappointed, man who expected the Inspector to admit this £500 as an income loss, so as to form a deduction in arriving at his taxable income. But, of course, if he were to make a habit of such dealings, so that in fact it would be fair and correct to say that he was carrying on a business of that nature, the case would be wholly different.

Premiums on Stock, &c.—Premiums on shares, stock, and debentures are not income, neither of the company if received on issue, nor of the holder if received on redemption.

Bonus on National War Bonds.—The prospectuses and advertisements bore that the bonus or premium payable on maturity is not taxable income. The representations to this effect were unqualified, and therefore it appears clear that this immunity holds though the bonds are the property of companies whose business it is to deal in securities, and who are taxed on profits. In many cases this is a big question, except that it is thought that there is no question about it. A similar announcement was made regarding Victory Bonds.

Exchange Profits and Losses.—The disturbed state of the foreign exchanges has brought into prominence the matter of profits and losses on exchange, in connection with remittances between this country and the Dominions or foreign countries. Various different cases may be distinguished. Some companies and individuals make a

business of dealing in exchange, and then of course the net profits are assessable to income-tax. Isolated transactions would not fall to be so regarded. Next, there are items of receipts and expenditure which enter into the account of income or profits. If these are made more or less by the exchange conditions, it will be the actual sum received or paid, as affected by exchange, that will be entered. Finally, there is the case of the realisation of colonial and foreign investments. There, again, the exchange factor follows the principal. If the other circumstances are such that any profit or loss on the realisation would fall to be regarded for income-tax purposes, then it will be the profit or loss as affected by the exchange. A profit on exchange may have doubled what would have been the ordinary profit, or it may have made a profit when otherwise there would have been none, or it may have reduced a loss. Whatever sum you receive here, after allowing for exchange, just assume that that is the sum realised here from a home investment. If, on the other hand, the tax-payer is not taxable on profit from investments, then any exchange profit also escapes, and no exchange loss can be deducted from income. But, of course, profit on exchange augments income as well as capital, and any ordinary tax-payer, chargeable on Dominion or foreign income, will have to account for the income as thus augmented.

Bonus Distributions.—Companies frequently make such distributions from surplus profits or from revenue. Generally it may be taken that if the shareholders have an option to take a cash dividend or shares, it is regarded as income though the shares be taken, but the contrary if shares only are offered. These distributions are invariably made from profits already taxed, and when there is the option of a dividend it is free of tax. There is, therefore, no further claim for income-tax on the dividend or shares, but their inclusion as income may attract (1) additional

tax upon the receiver's *other* income, and (2) super-tax. When there is the option of a 'free' dividend, it is, we know, not always required that the tax shall be added to the dividend to arrive at the receiver's total income.

Bonuses on Life Policies.—It is perhaps hardly necessary to say that these, whether taken on death, or on maturity during life, or by surrender, are not taxable income.

Return of Capital.—When companies are in course of legal or practical liquidation they frequently make distributions among the shareholders of what is not income at all, but capital. When the sums are large it is not likely that a mistake would occur on the part of the recipient in treating them as income in the statement of his or her income for tax purposes. But that is more apt to happen when the amount is small, especially if it is received at the same time as proper dividend, and perhaps the two are not distinguished in the warrant for payment. If there is anything to suggest doubt, be careful, and consult the secretary of the company in the first instance.

Capital or Income.—Say a business is sold, the price to be paid by instalments, or a partner is paid out on that basis, the form of agreement may be very important. (1) If the price is £1000, to be received in five instalments of £200 each, the instalments are capital and not taxable. (2) If the payment is to be £200 a year for life, but not to exceed £1000, each £200 as received is income and taxable. (3) Suppose the £1000 in the first case is to bear interest at 5 per cent. If so expressed, the interest is taxable income. If expressed as one lump sum of £1150, receivable by five equal instalments without interest, there is no taxable income.

DEDUCTIONS FROM INCOME.

This is a branch of the subject which is rather insidiously confusing. It will be greatly cleared if five classes of items are kept totally distinct. These are :

1. Expenses necessarily incurred in earning the income.
2. Legal burdens on the income.
3. Statutory allowances from income-tax.
4. How the income is spent.
5. The income-tax itself.

1. EXPENSES OF EARNING THE INCOME.

This is dealt with in some detail in Chaps. 7 to 9, but meantime it is enough to say that where expenses are allowable the income is not arrived at until after they are deducted. In other words, the only income with which the income-tax Acts have any concern is the sum which is brought out after these deductions are made. We hesitate even to use the expression 'net income,' for it is apt to confuse. Until after these deductions are made we have not arrived at income at all.

2. LEGAL BURDENS ON THE INCOME.

These include :

1. Land-tax (see pp. 41, 48); but not income-tax.
2. Owner's rates (see pp. 40-41).
3. Ground rent; feu-duty; ground annual.
4. Tithe; teind; minister's stipend.
5. Interest on loans.
6. Annuities payable.

All of these fall to be deducted from income in order to determine (1) whether the receiver of the income is liable for any tax at all, or is exempt; and (2) the rate of tax.

One case of interest which is easily forgotten is when certain securities are purchased under the condition that, in addition to the price, the purchaser pays to the seller the accrued interest up to date of purchase. The interest so paid is a deduction from income.

But then, even though the receiver of the income is entitled to exemption, it does not follow that he is entitled to repayment from the Inland Revenue of the gross amount

of income-tax which he has paid. The reason is that in many of the above cases he has already obtained, or is entitled to obtain, repayment of tax from the persons to whom he has paid the ground rents, &c. Thus, if I buy a house at the price of £800, and pay income-tax amounting to £10 on its annual value, but have mortgaged it for £500 at 6 per cent., the annual interest is £30. On payment of that interest I am entitled to deduct from the lender income-tax amounting to £9, so that really, on a balance, all the tax I have borne is £1, and that is all of which I obtain repayment from the Inland Revenue, even if I am entitled to exemption. In this way I do in fact and to the full obtain total exemption, for all I paid was £10, and I have got back £9 from the mortgagee and £1 from the Revenue. In fact, there would probably be also a ground burden, and on payment of it I would keep off a further part of the tax, which would leave so much less to be repaid by the Revenue.

It is essential that all these legal burdens on the income should be stated. We can quite understand that it may not be obvious to every one why that is so. Still less may it seem obvious when, even without any such deduction, the income is only £135 or less, and so is within the limit of exemption. But in all cases the deductions must be stated. The reasons are:

1. The deductions lessen your income, and you may thus be entitled to tax relief from which you would otherwise be excluded.

2. On the other hand, by not disclosing burdens from which you have deducted tax on payment, you obtain double reimbursement—which is wrong. We have just shown this in detail.

3. In like manner, by making out your income to be bigger than it is, you may have increased your insurance allowance beyond your rightful one-sixth of true income.

4. An equally sufficient reason for disclosing the burdens

is that to do otherwise is an offence punishable by fine and imprisonment.

3. STATUTORY ALLOWANCES.

The way in which these work is stated in Chap. 14.

4. SPENDING THE INCOME.

It may seem almost superfluous to urge the necessity of distinguishing between such deductions as are referred to under Nos. 1 and 2 above on the one hand, and the mode in which the income is spent on the other hand. But the fact remains that cases arise where confusion is not unnatural, and indeed where opinions may differ. In the case of a professional man who has his house and his business chambers in the same premises, the division of the rent and other items between house and business is a good case in point. Subscriptions to charities are another, and so is the expense of travelling to and from business.

5. THE TAX ITSELF.

Income-tax is not a deduction in arriving at the amount of the income. It is the King's share of the income after the income is ascertained. Accordingly in the statement of income you will, in the column for the income, insert the gross amount, although that is more than you received, and in the adjoining column (when there is one) you will insert the tax which was deducted against you. Thus, if you hold a debenture for £200 at 6 per cent., what you actually receive each half-year is only £4, 4s. net, or £8, 8s. net each year; but nevertheless you must put down, in the column for income, the annual sum of £12, and if the form is one in which the tax has also to be stated, then in the tax column you write £3, 12s.

But it does not follow that expense incurred in making up accounts for income-tax, and in negotiating adjustments with the department, and generally accountancy and law costs applicable to tax matters, are not good deductions in arriving at taxable profits.

CHAPTER 6.

PROPERTY-OWNERS.

THE word 'property' is here used in its popular sense as meaning real or leasehold estate, known in Scotland as heritable property—that is, land, houses, shops, and other buildings. The difference in the methods of assessment in England and Scotland turns upon three matters: (1) the existence in Scotland, but not in England, of an annual Valuation Roll; (2) the rule in England of imposing local rates on the tenant only, as compared with the Scottish practice of imposing most rates on landlord and tenant practically equally; and (3) it is less common in Scotland than in England to make the tenant do all repairs.

ENGLAND AND WALES

The poor-law valuation serves somewhat as a substitute for a general Valuation Roll. It is, therefore, important to appeal against that assessment if you consider it is too high. If that appeal is successful, intimate at once to the Inspector of Taxes.

In the case of the owner being in personal occupation, the annual value is fixed on an estimate of what the rent would be if the property were let on the conditions that the landlord paid repairs and the tenant paid rates. That gives the gross figure; then deductions follow as noted below.

Where the property is let the gross valuation is arrived at thus: (1) the actual rent, if let on the conditions just stated; (2) if the tenant pays repairs, the estimated amount is added; (3) the like if the tenant pays landlord's rates (if any) and taxes; (4) if the landlord pays tenant's rates the amount is deducted from the rent.

Deductions.—From the gross valuation so fixed deductions are made to arrive at the net valuation on which income-tax (Schedule A, landlord's property-tax) is charged. These may, according to circumstances, include :

1. *Repairs, &c.*—One-eighth of the gross assessment in the case of lands and farm houses and other farm buildings ; in other cases one-sixth. If the tenant does repairs, deductions, not exceeding these proportions, are made, if necessary, to secure that the assessment does not exceed the actual rent. Further, but only in certain cases, if these deductions do not cover the expenditure on repairs, maintenance, insurance, and management, additional relief can be obtained ; as to which, see p. 46.

2. *Land-Tax.*—See p. 48.

3. *Tithe.*—Add it, if tenant pays.

4. *Drainage Rate.*

When these deductions are made, the result is the net amount on which income-tax is charged. The separate matter of legal burdens such as ground rent and mortgage interest is dealt with on p. 42.

SCOTLAND.

The Crown is not bound by the Valuation Roll in those counties and burghs where the Inland Revenue official is not the Lands Valuation assessor ; but generally tax is charged on the amount in the Valuation Roll, less :

1. An allowance for rates, which is usually so calculated as to be sufficient ; but if not, see p. 212.

2. The proportions of one-eighth and one-sixth stated above for repairs, &c. These proportions are in Scotland calculated on the gross Valuation Roll figure before the deduction for rates.

3. Land-tax will be allowed off if paid and claimed. See p. 48.

4. Teind (tithe) or stipend is not deducted, for on payment the proprietor takes off tax.

IRELAND.

The assessment is on the basis of the survey and valuation for poor-rates, subject to the power of the Commissioners to order a revaluation, and also to the right to have the assessment reduced to the amount at which the property might let from year to year. Poor-rates paid by the owner in the preceding year are deducted.

INCOME AND LEGAL BURDENS.

Income.—In any statement of income the lands or buildings go down at the amount on which they have been assessed for income-tax purposes. When the assessment notices come in, you must, therefore, very carefully scan them. If you are dissatisfied or do not understand, you ought to see the Inspector, and the probability is that you will get satisfaction. If not, you may have to appeal. In Scotland it will probably be found that nothing can be done if you have not appealed in time against the entry in the Valuation Roll; but there are exceptions. If matters are in discussion between you and the Inspector, it is wise to give formal notice of appeal in the official form annexed to the notice, so as to keep matters open and preserve your rights.

Legal Burdens.—But even supposing that your property is correctly assessed for tax at £100, and must go down at that figure in your income statement, it may well be that your actual true income from it is very small after deducting such items as ground burdens and mortgage (or in Scotland 'bond') interest. There are also the items of extra repairs, insurance, and management; unlet property; remission of rents; and absconding and defaulting tenants. These things make a serious list, and most property-owners know that the actual yield is less than the taxed amount. All the cases of deductions and loss just mentioned may be so far allowed for on special application, and we deal

with them all below. But meantime we confine ourselves to what are known as 'legal burdens'—namely:

1. Ground burdens. These include ground rent, and, in Scotland, feu-duty, ground annual, and tack-duty.

2. Interest on borrowed money, if any.

3. Annuities, if any.

4. In Scotland, teind and/or minister's stipend.

All these may be deducted in order to show the true income, and they must be deducted in order to bring out the fact that the proprietor has already so far recouped himself by deducting tax from the persons to whom these items have been paid. But in all the official forms which he may have to fill up he will reserve these for the part of the form which is headed, 'No. 2, Particulars of Charges on Income;' and in part No. 1 he will insert the annual value without regard to these legal charges. Thus:

NO. 1. PARTICULARS OF INCOME.

Rent of farm (specifying it)	£200
Rent of houses (do.)	120
Total	£320

These are the actual sums on which the proprietor has been assessed to income-tax—that is to say, *after* the deductions for (1) owner's rates, if any, and (2) the $\frac{1}{8}$ th or $\frac{1}{6}$ th for maintenance.

NO. 2. PARTICULARS OF CHARGES ON INCOME.

Ground rent (or feu-duty) on farm (Name creditor)	£20
Do. on houses (Do.)	20
Interest on loan of £2000 at 6 per cent. (Do.)	120
Annuity (Do.)	20
Stipend on farm (Scotland), Minister of the Parish of ———	10
	<hr/> 190
	£130

All these deductions are entered at the gross amount—i.e. without deducting tax, although on payment the proprietor would in fact deduct tax. If there is no other income he is exempt from tax, for his actual income is

only £130; and this is not altered by the fact that the tax assessments on the farm and houses amount to £320, or by the other fact that the rents actually paid by the tenants are probably larger still, for the reasons which we have above fully explained.

If the form which is being filled up is a Repayment Claim form, it has an additional money column, so as to show (1) the tax paid by the proprietor, and (2) the tax deducted by him from the people to whom he pays the charges. Curtailed somewhat, it runs thus:

			Income.	Tax Paid.
Farm	} <i>after</i> deductions for rates and main- Houses } tenance.	{	£200	£60 0
			120	36 0
Total income and tax thereon			£320	£96 0
			Amount of Charge.	Tax thereon.
Ground rent (or feu-duty)			£20	£6
Do.			20	6
Interest			120	36
Annuity			20	6
Stipend			10	3
Total charges and tax thereon			190	57 0
Total income, less charges and tax thereon			£130	£39 0

The owner, being assumed to be entitled to exemption, would get repayment from the Inland Revenue of £39, and he has deducted from his creditors, as above, £57. Between these two he has got back £96, which is all he ever paid.

To illustrate an Adjustment Claim in like manner:

	Income.	Tax Paid.
Farms (detailed) } <i>after</i> deductions for rates { Houses (do.) } and maintenance . . . {	£400 200	£120 0 60 0
Charges and tax thereon as before	£600 190	£180 0 57 0
Total income, less charges and tax thereon	£410	£123 0

Assume the proprietor to be a married man with no other income, no life assurance, and only the marriage allowance of £225. That deducted from £410 brings out a 'taxable income' of £185, on which the tax rate is only 3s., which amounts to £27, 15s. He accordingly applies for and obtains repayment of the difference between this sum and £123 (not £180)—i.e. £95, 5s. In this way, although he paid in the first instance £180 0 he has got back from—

Government,	£95	5	
His creditors, as above,	57	0	152 5

He thus really is left paying no more than his true tax liability as shown above, £27 15

If the owner is entitled to exemption from income-tax, he may by arrangement not be assessed at all. But even then, if he pays ground burdens or loan interest, or both, he will be assessed on the amount of these. The reason is that on payment of these he took off tax. He did so really as agent for the Government, and he must hand it over accordingly, which he does under this limited assessment. Thus, assume that the ordinary full income-tax assessment on a house would be £30, and that the owner pays £4 ground burden and £12 mortgage interest, together £16, on payment of which he deducts tax at 6s., or £4, 16s. The owner will at least be assessed on £16, and called on to pay the £4, 16s. Otherwise he would be making a profit out of the existence of income-tax.

It sometimes happens that the ground burdens and loan interest exceed the full assessment. Thus the full assessment may be £100, and the ground burdens and interest may come to £120. On payment of these the owner deducts £36 of tax, while under the £100 assessment he is called on to pay only £30. This leaves him with £6 in hand, which the Inland Revenue are entitled to claim from him.

SPECIAL DEDUCTIONS.

We now pass to consider such provision as has been made for curing or alleviating some of the various ills which the property-owner is heir to.

Unlet Property.—The tax is charged on income only, and if, therefore, the property, or part of it, is unlet for the whole or part of the year, there is relief corresponding. When the event occurs write to the Collector of Income-Tax (in Scotland to the Inspector) stating the fact, and asking for the appropriate official form. But strictly this relief does not apply to land.

Lost Rents.—This is much the same. It applies to loss of rent in whole or in part owing to a tenant absconding or defaulting, and the landlord in either case being in fact unable to recover the rent, or part of it, after enforcing his remedies if there is anything to enforce them against. The procedure is as stated in the last paragraph. Land is included.

Loss through Fire.—When rent or occupation is lost through fire a case arises for an allowance of tax. It is submitted that it makes no difference though this loss (which an ordinary insurance on the building does not cover) has been specially insured against.

Rents Remitted.—This relates to three cases—namely :

1. Rents absolutely and finally remitted owing to agricultural depression.

2. Rents remitted owing to losses to crops or stock from flood or tempest.

3. This last may be claimed even by a proprietor who farms his own land, to the extent to which a tenant would in equity have been entitled to relief.

All the claims referred to in the preceding paragraphs ought to be made promptly, otherwise they may be disallowed for delay.

Excess Maintenance.—The allowances of one-eighth and

one-sixth mentioned on p. 41 are often insufficient. An attempt has been made to remedy this, but it is partial in its application and troublesome to work. It applies to all land and the farm houses and farm buildings, and also to other houses which do not exceed the following limits: £105 in London, £90 in Scotland, and £78 elsewhere.

The relief is the tax on the expenditure on maintenance, repairs, insurance, and management so far as exceeding one-eighth on land and farm buildings or one-sixth on houses. But the expenditure which is taken as the test is not the actual expenditure of the year; it is the average of the expenditure of the five preceding years. This is where the trouble of working it comes in. Thus, assume a block of houses, each within the limits, and amounting in total to £600. One-sixth of that has already been allowed off, but the owner or his agent is prepared to prove that that is not enough. He is dealing with the year 1920-21, so what he must do is to make up figures of expenditure on maintenance, repairs, insurance, and management, not for that year, but for the five preceding years, April 1915 to April 1920. If these years show expenditure of £200, £50, £150, £100, and £100, that gives a total for the five years of £600, and an average of £120. This proves the case for an additional allowance, in 1920-21, equal to the tax on £20.

‘Maintenance’ includes everything *necessary to maintain the existing rent*, including, if so necessary, replacement of farm houses and other buildings, fencing, &c. If the rent is increased because of the expenditure, there may strictly be no claim, but this condition is not always enforced very exactly. Expenditure on the proprietor’s mansion-house and pleasure-grounds does not count.

Each estate or each property must be taken as a whole. You compare total expenditure with total annual value. You are not allowed to pick out one farm or one house to suit yourself.

The time-limit is three years from the expiry of the tax year.

WOODLANDS

are liable to taxation on both ownership and occupancy. A proprietor who does not let the woodlands pays both taxes. On ownership the tax is under Schedule A. On occupancy it is usually under Schedule B; but if the proprietor manages the woodlands on a commercial basis with a view to profit, he may elect to be assessed under Schedule D. That election, once made, must be adhered to. Schedule D income-tax may involve also excess profits duty. A full memorandum is obtainable from Somerset House. It contains a form of account, which may be on a cash basis (see p. 71). Broadly the results of Schedule D are that the proprietor is taxed only on profits if any, only when these are realised, and at the rate of tax then ruling. If Schedule D is to be elected, give notice before 5th June (Scotland, 5th August) of the tax year. Whether under B or D, woodlands are treated as earned income.

LAND-TAX.

If any owner who is assessed to land-tax has an income not exceeding £160, he can obtain total relief; and if his income exceeds that figure, but does not exceed £400, he can obtain relief from one-half. But he must move in the matter before paying; land-tax once paid, there is no legal right to repayment. He should write to the Inspector of Taxes.

SCHEDULE B.

This is known as the 'farmer's tax,' and in that aspect it is dealt with in Chap. 10. But it extends much further, and in particular applies to occupying owners of land.

Beginning with April 1918, it is at present charged on double the annual value; before that it was on the annual

value. So this doubles the assessment, which may mean much more than doubling the tax. But this charging on double the annual value is confined to land which is (a) wholly devoted to husbandry, or (b) mainly devoted to husbandry, or (c) unreasonably devoted to some other purpose. Land reasonably otherwise used is charged on the annual value.

While Schedule B applies to all occupation of land, it is only farmers and owners of woodlands commercially managed who have the right of electing Schedule D. Farmers have also under Schedule B the separate right of proving short profits at the end of the year.

When the proprietor is in personal occupation, his income from the land in question is deemed to be the total of the Schedule A and Schedule B assessments, or, say, *three times* the annual value. B is usually 'earned' income.

In Ireland the Schedule B assessment is on the basis of the poor-law valuation, subject to the power of the Commissioners to order a revaluation, and to the separate right to have the assessment reduced to the amount at which the property might let from year to year. But if any of the following is less than the poor-law valuation, the lowest is substituted—namely, (1) the judicial rent, (2) the statutory annual interest in lieu of rent, (3) the statutory purchase annuity.

CHAPTER 7.

BUSINESS INCOMES.

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THE tax-payer's trading or professional income is only one item in his income from all sources, and as such it must be brought into the general statement of his income for tax purposes. If he carries on business by himself alone, he has only the one statement dealing with everything, including this item. If he is in partnership, there is a firm's return in which the firm's total income and the partners' shares are stated, and he has also his separate individual statement into which he carries his share of the firm's profits.

Even when there is a firm, it is usual in the assessment of the business profits to allow off all allowances if, and so far as, the individual partners are entitled to these. The authorities obtain the information necessary to enable them to adjust all these matters from the partners' individual statements. The convenience of this arrangement goes without saying. It scores the great end of prevention as against cure. That is to say, it does so as far as possible, for it may quite well (and it does in fact) happen that even total exemption of any one partner's share of the profits will not give him all the relief to which he is entitled. In that case the relief he gets

in this form is taken by him as on account. He may obtain a further instalment of relief on his house or war loan. If, after all that, there still remains a balance of his relief claim unsatisfied, he is driven to the less desirable alternative of cure in the form of a claim for repayment, in which he will give the Revenue credit for what he has already obtained. This state of the firm's accounts may come about in many ways, but we give only one simple illustration. Suppose a partner's share of the firm's profits is £350, and his and his wife's investment income, all taxed at the source, is £500, and that he has three children under sixteen, and pays £30 annually for assurance. His marriage allowance of £225 and his children allowance of £90 amount together to £315, and so exactly exhaust his 'taxable' earned income, which is £315, after allowing off 10 per cent. from the £350, so nothing is charged against the firm on his account. But that still leaves him entitled to (1) graduation relief from 6s. to 3s. on £225 of the investment £500, and (2) the life assurance allowance also at 3s. These together amount to £38, 5s., to be obtained as above explained.

The income-tax on the firm, though arrived at in this way by reference to the private personal position of each partner separately, is charged to the firm. It is obvious, therefore, that care is required to see that it is debited to, or provided by, the partners, or such of them as are liable at all, in their proper shares. These may, and almost must, be different from their shares in the firm's profits, so that simply to debit it to the firm's accounts generally, just like any business expense such as rent, might, and probably would, be wrong. The best way is to keep it out of the firm's books altogether, each partner at once giving his private cheque for his due proportion. In adjusting the partners' liability among themselves, besides the differences of allowances and rate, there is a specialty when their contributions of capital are different from their

ILLUSTRATION No. 2.

Profits, 1917	.	.	.	.	.	.	.	.	£800
" 1918	.	.	.	.	.	.	.	.	600
" 1919	.	.	.	.	.	.	.	.	400
									<u>3)1800</u>
Statutory income for 1920-21	.	.	.	.	.	.	.	.	£600

ILLUSTRATION No. 3.

Profits, 1917	.	.	.	.	.	.	.	.	No profit, but loss nil
" 1918	.	.	.	.	.	.	.	.	£200
" 1919	.	.	.	.	.	.	.	.	1000
									<u>3)1200</u>
Statutory income for 1920-21	.	.	.	.	.	.	.	.	£400

ILLUSTRATION No. 4.

Profits, 1918	.	.	.	.	.	.	.	.	£400
" 1919	.	.	.	.	.	.	.	.	800
									<u>£1200</u>
Loss, 1917	.	.	.	.	.	.	.	.	600
									<u>3)600</u>
Statutory income for 1920-21	.	.	.	.	.	.	.	.	£200

ILLUSTRATION No. 5.

Profits, 1918	.	.	.	.	.	.	.	.	£500
" 1919	.	.	.	.	.	.	.	.	500
									<u>£1000</u>
Loss, 1917	.	.	.	.	.	.	.	.	1000
Statutory income for 1920-21	.	.	.	.	.	.	.	.	nil

Note with reference to all these cases:

1. The annual figures are the profits as ascertained in terms of the Acts as stated below, and neither the actual profits of the years in question nor the sums on which tax was charged for those years.

2. In like manner, all references to 'actual profits' mean the profits of a year, taken no doubt by itself alone without regard to previous years or to any average, but still calculated in all other respects on the rules of the Acts. Apparently even repairs have to be taken, not on a

three years average as stated on p. 61, but on the actual expenditure of the year.

3. The statutory income is subject to the deduction of one-tenth income earned.

4. It is also subject to the personal allowance of £135, or the marriage allowance of £225.

5. It may also be subject to deduction of many family allowances.

6. It has rate relief to 3s. per £ on the first £225 which remains after effect has been given to all these rules.

7. Finally, if anything remains, there is life assurance relief to put against it.

Referring to the five illustrations stated above, we may assume that it is the case of a married man, a sole trader, and that he has no other income. No. 5 shows no income for taxation. Deducting the 10 per cent., the figures are £540, £540, £360, and £180. The marriage allowance of £225 exhausts this last, and so there is no tax in that case. Deducting the marriage allowance from the other profits, there remain £315, £315, and £135. If we assume four children eligible for the children allowance (£36, and three at £27), and one dependent relative (£25), these allowances amount to £142. This exhausts the £135 case, and so there is no tax payable in that case. In the two other cases there remains a taxable income of £173, chargeable at 3s. per £, less any life assurance allowance.

MODIFICATIONS OF THE AVERAGE.

New Business.—The official instruction is: ‘If the trade has been set up within three years, the assessment is on an average from the period of commencing the same; or if commenced within the year of assessment, the profits are to be estimated according to the best of your knowledge and belief.’

In practice, till the full three years have expired, the matter is worked thus:

First year. Wait till end of business year, and tax on the result.

Second year. Either tax on first year's result, or wait till end of second year and tax on average of the two years.

Third year. Average of first and second years.

Fourth year. Average of preceding three years.

ILLUSTRATION.										Profits.	Assessment.
Year.											
First.	.	.	.	.	.	.	.	.	.	£460	£460
Second	.	.	.	.	.	.	.	.	.	540	{ 460 or 500
										2)1000	
Third	.	.	.	.	.	.	.	.	.	800	
										3)1800	500
Fourth	.	.	.	.	.	.	.	.	.	900	600

Subject, of course, to the deduction of the one-tenth and to all allowances.

It may be important in the tax-payer's interest to remember the virtue of the broken period as stated in Chap. 22. Thus, if you commence in October, and the first full year shows profit £260, your profit for the half-year to April is only £130, and so exempt.

If in any of the first four years the actual profits of the year are less than the assessment, the former, when ascertained, can be substituted and repayment obtained. Claim at end of each year.

Amalgamations.—When two businesses are amalgamated, the joint business is assessed, (1) for the first year, on the combined averages of the last three years of the separate businesses; (2) for the second year, on the combined averages of the last two years of the separate businesses and its own first year; and (3) for the third year, on the combined averages of the last year of the separate businesses and its own first and second years.

Succession.—When a change occurs in the ownership of a business it is often very difficult to say whether there has been a succession of the new proprietary to the old, or the

discontinuance of one business and the commencement of a new one. To make a succession in the one business, what is required is, not continuity in ownership or in the same form of ownership, but continuity in the trade or concern. This is primarily a question of fact; but sometimes it becomes a question of law on which the courts will entertain an appeal. To make a succession there must be substantial, but not necessarily pedantically exact, identity of the nature of the trade. Whether the Commissioners answer this question *yea* or *nay* on the evidence, the law courts will not readily interfere. When succession is established, the rule is that the old average applies. Thus the successor's first year will be charged on the average of the predecessor's last three years; his second year, on the predecessor's last two years and his own first year; and his third year, on the predecessor's last year and his own first and second years. But see *Specific Cause* below. The following, among others, are instances of succession: (1) when A's business is left by will, or descends on intestacy to B; (2) when A buys B's business; (3) when a business is formed into a limited company. But the purchase of the whole property of a company, as, for instance, the only ship of a single-ship company, may be made in such a way as not to create a succession in business. And there is no succession when partners dissolve and each carries on separately.

Partnership Changes.—These have some resemblance to successions, and they have the same result—namely, the old average is carried on and applied. Such changes may come about by the death of a partner, on retirement of a partner, expulsion of a partner, dissolution of partnership (when the trade is not discontinued), or admission of a new partner. But see next paragraph.

Specific Cause.—In all these cases of succession and partnership changes, relief may be obtained as regards the three years after the succession or change if it can be

shown that the profits of any of these three years are less than the assessment brought out in the transmitted average, and that some diminution of profit is due to 'some specific cause since such change or succession took place or by reason thereof.' The relief takes the form of restricting the assessment to the actual profit of the year, or treating the business as a new one beginning at the date of the succession or change. Specific causes are the death or retirement of a partner, withdrawal of capital, conversion into a company, labour troubles, exceptional trade depression, closing of branches, loss of trade connections, defalcations, fire, shipwreck, adverse exchange conditions, but not payment of excess profits duty. The tax-payer will claim or not as pays best. He may claim for any one, or for any two, or for all three of the years after the succession or change.

This relief works peculiarly. Thus (1) the specific cause need not be specially connected with the particular business—e.g. general acute trade depression; (2) it need not have arisen out of the succession or change—e.g. labour troubles; (3) the relief may be obtained though the profits of the year are larger than those of the year before the succession or change, if they are less than the average; and (4) the relief is not limited to the harm done by the specific cause; the reduction in the assessment may be much greater than the prejudice which the tax-payer has suffered from the specific cause.

Discontinuance of Business—that is, total relinquishment, with no successor. Therefore a sale of the business to a company is not a case of discontinuance. But when there is discontinuance :

1. In the last year the broken period rule operates, and the tax-payer may choose the basis of actual profits instead of average.

2. Further, he may claim, for the three preceding years, the actual profit as against the average. But he must do so

for the three years, or not at all ; and he can make nothing of it unless the tax which he has paid for those three years is more than it would have been if, in each of them, he had been assessed on his actual profit.

Death, Bankruptcy, &c.—The profits may exist all right, but the tax-payer may cease to be the party entitled to them. He may sell and retire from a business carried on by himself, or he may die or become bankrupt. In this way he may lose the whole, or, more probably, part, of the profits on which he is assessed. In these cases relief is provided. The claim is to be made within three months of the end of the year of assessment. In cases of sale, the tax will be apportioned between seller and purchaser. Now that we have half-yearly payment of tax, it is hardly likely that in any such case the second instalment will have been paid. The relief applies also to cases of death or retirement of one who derives an income from a public or private appointment or employment.

Loss instead of Profit.—If a trader or professional man proves at the end of any year that, taking that year by itself alone, there is no profit, but a loss, he, in the first place, pays tax on the statutory (in this case wholly fictitious) income arrived at on the average of the three preceding years. Then, in the second place, he *may* (he is not bound to, and he may be advised not to) obtain repayment of tax on the amount of the actual loss. Of course, no repayment can exceed the tax he has paid ; but if the loss exceeds the business assessment, the excess may be put against investment income, if any. This again will reduce the investment income, and so may affect the rate of tax. This claim for loss having been made, the loss in question can never be brought into account in any future year to reduce the average ; for the purpose of future averages, the year of the loss would be reckoned as showing neither profit nor loss. Better take advice before making this claim.

Partner's Share for Tax Purposes:—For all purposes of exemption and relief, each partner is entitled to have his share of the profits treated separately. That share is his actual *proportion*, for the year, of the firm's profits ascertained in terms of the Acts.

ILLUSTRATION No. 1.

Firm's profits for last three years steady at £2000, which is therefore, of course, its average for this year. During the last three years the share of partner X has been ascending $\frac{1}{5}$ for first year, $\frac{1}{4}$ for second and third years, and now this year $\frac{1}{2}$. His statutory income, therefore, this year is £1000; it is also his actual income if the firm's profits are £2000, but it may be more or less according to the profits; and it is certainly more than if you averaged *his share* of the firm's profits for the last three years, viz. £400, £500, £500, giving an average of £466 odds.

ILLUSTRATION No. 2.

Firm's profits for last three years, £1000, £2000, £3000 = £6000, giving an average, which is taken to be this year's profits, of £2000. Share of partner X has been ascending as above. His statutory income is thus £1000, whereas an average of his share, for the past three years, of the firm's profits would be £483, thus :

First year $\frac{1}{5}$ of £1000	.	.	.	.	.	.	.	£200
Second year $\frac{1}{4}$ of £2000	.	.	.	.	.	.	.	500
Third year $\frac{1}{4}$ of £3000	.	.	.	.	.	.	.	750
								<u>3)1450</u>
								£483

ACCOUNTS.

From what has been said it is obvious that, without accounts of one's business transactions and profits and losses, one has no real chance in regard to income-tax. In most cases, if any financial trouble comes, it is a criminal offence to have carried on business without book-keeping. Apart from that, it is a little suspicious to say that there are no accounts, there being always the possibility that that is stated because the accounts might contradict the income-tax return. What is apt to happen is that you receive an assessment on what you may regard as an

exorbitant and random sum of alleged profits, and, being without books or accounts, you have no real material to contradict it. If you do thus suffer liability for more tax than you ought really to pay, opinions may still differ as to whether you are also suffering injustice.

Where there are not proper books, or books are not properly kept or balanced, it is found in practice that, at any rate in small businesses, where alone such conditions are likely to be found, Inspectors will accept statements such as the following.

YEAR TO 5TH APRIL 1920.

	Position at	
	Beginning of Year.	End of Year.
1. Cash in hand	£5	£10
2. Cash in bank	50	200
3. Stock	400	300
4. Debts due to me	300	200
5. Sums drawn by me from business during the year	—	156
6. Stock consumed at home during the year	—	52
	£755	£918
Less—		
7. Debts due by me	300	200
	£455	£718
		455
		£263
Profit for year		
Similar accounts show profits :		
For year to 5th April 1918		£220
" " 5th April 1919		147
" " 5th April 1920		263
		3)630
Average of the three years giving the 'statutory' income to be returned for 1920-21		£210

But, further, the profit and loss account, formal or informal, which may be good enough, or even the only proper one, for your own purposes, may not serve, as it

stands, for income-tax purposes. It may show a smaller, or a larger, profit for the year than is proper for purposes of tax. That fully appears below, where we show what may, and what may not, stand in the accounts for these latter purposes. So, while you keep your own account to guide yourself, you alter it as a tax basis.

GENERAL DEDUCTION RULES.

The official directions are that the following deductions are :

Allowed. — 1. Repairs of premises occupied for the purpose of the trade, &c., and for the supply or repair of implements, utensils, or articles employed, not exceeding the sum usually expended for such purposes according to the average of the three years preceding.

2. Debts proved to be bad; also for doubtful debts according to their estimated value.

3. Rent of premises used *solely* for the purposes of business, and not as a place of residence.

4. A proportion, not exceeding two-thirds, of the rent of any dwelling-house *partly* used for the purposes of business.

5. The annual value of any premises in the United Kingdom occupied by the owner *solely* for the purposes of business, and not as a place of residence, according to the amount on which tax has been paid under Schedule A, less ground burdens, if any; but in the case of mills, factories, or other similar premises, the figure is the gross Schedule A assessment before deduction of allowance for repairs and maintenance.

6. A proportion, not exceeding two-thirds, of the annual value (according to the amount on which tax has been paid under Schedule A, less ground burdens, if any) of any dwelling-house occupied by the owner and *partly* used for the purposes of business.

7. One-sixth of the annual value of any mill, factory, or

similar premises outside the United Kingdom, occupied by the owner for the purposes of the trade.

8. Excess profits duty. This is a deduction in the year *for* which it is paid. Any repayment is to be treated as profits of the year *in* which it is received.

9. Obsolescence (trade only); that is, the written-down value of any plant or machinery discarded as obsolete, and replaced, less salvage.

10. Any other disbursements or expenses wholly and exclusively laid out for the purposes of the trade, &c. As to certain expenses, see p. 63.

Not Allowed.—1. Interest on the trader's own capital in the business.

2. Interest, annuity, or other annual payment payable out of the profits.

3. Any royalty or other sum paid for the use of a patent. The reason why Nos. 2 and 3 are not deductible is because they are paid less tax. In arriving at the statutory average for, say, 1920–21, in a case where royalties were paid during the three preceding years, but not in 1920–21, these royalties must not be deducted.

4. Sums paid as salaries to partners, or for drawings by partners.

5. Sums invested or employed as capital in the trade or business, or on account of capital withdrawn therefrom.

6. Sums expended in improvement of premises or written off for depreciation of land, buildings, or leases.

7. Mineral rights duty; but that duty itself is calculated only on the mineral rents or royalties, less income-tax thereon deducted by the mineral lessee on payment.

8. Excess mineral rights duty.

9. Loss not connected with, or arising out of, the trade, &c.

10. Expenses of maintenance of the persons assessable, their families, or establishments, or any sum expended on any other domestic or private purpose.

11. Loss recoverable under an insurance or contract of indemnity.

12. Sum paid as United Kingdom income-tax on profits or gains, or on the annual value of trade premises. But foreign taxes may be deducted. As to Dominion tax, see Chap. 18.

13. Premium for life assurance, or for wear and tear of machinery or plant.

The two main rules are that you are not to deduct (1) anything which is a capital charge or expenditure, or (2) anything which is not, or in so far as it is not, exclusively applicable to the business. But it is not always quite easy to apply these rules.

Capital Charges.—As such, the following are disallowed: new buildings or extensions; improvements; raising capital or loans; additional plant or machinery; forming company or partnership; obtaining leases; uninsured losses by fire, &c., to buildings and plant; depreciation of land, buildings, leases, goodwill, trade-marks, or copyrights.

Trading Expense or Not.—In applying No. 10 of the officially permitted deductions, 'expenses wholly and exclusively laid out for the purposes of the trade,' the following are—

Allowed.—1. Taxes and rates; not income-tax, and therefore any repayment of income-tax which may be obtained will not be credited in the account of taxable profits, which might inadvertently happen.

2. Cost of travelling on business, including journeys between multiple shops. But see No. 4, p. 64, and also p. 77.

3. Insurances, but only ordinary, such as fire, glass, burglary, fidelity, National Health, &c., workmen's compensation; also against loss of liquor licence in the case of tied houses.

4. Uninsured losses of stock and utensils (but not buildings or plant) by fire, &c.

5. Uninsured losses by employer's liability claims, burglary, dishonesty.

6. Expenses of removal of *stock* to new premises.

7. All expenses of compulsory removal.

8. Losses on guarantees undertaken for trade benefits. A solicitor has been allowed loss on the guarantee of a mortgage when he was in the habit of giving such guarantees to clients for a consideration.

9. Damages (and incidental law costs) incurred in connection with the business. The merits or demerits of the case, and whether it be lost or won, do not matter. But sometimes this will be disallowed, and admittedly the line is very fine.

10. Contributions to conciliation boards.

11. Accustomed payments for public or charitable purposes from which members of the staff might obtain benefit. Examples are continuation classes, technical courses, and local hospitals.

12. Reasonable advertisement; but on starting a new business part at least may be treated as capital expenditure.

13. Accustomed gratuities to retiring servants.

Disallowed.—1. Insurances intended to replace wasting capital, as a sinking fund policy to compensate for expiry of a lease; also profits insurance and insurance against strikes; but it is understood that the last two will be allowed if the tax-payer gives an undertaking to treat as taxable income any sums which may be recovered under the insurances, which otherwise he would apparently not be bound to do. No attention either way is paid to market appreciation or depreciation.

2. Depreciation of plant, except as dealt with below under Wear and Tear.

3. Depreciation of utensils, &c.

4. Cost of travelling to and from business.

5. Penal liabilities, though arising out of the carrying

on of the business; for instance, fines (and relative costs) for breach of trade regulations. These are disallowed on the ground that only commercial losses are deductible.

6. Premiums paid on renewal of leases.

7. Cost of borrowing money in any form, whether original borrowing, or renewals, or replacements. The only exception is in favour of mortgage and investment companies, and then only as regards renewals and replacements.

8. Cost of reduction of a company's capital.

9. Costs applicable to questions regarding division of profits, as distinguished from making them.

10. Lodgings while profit is made from sub-letting house.

11. Expense of a servant to enable wife as well as husband to engage in employment.

WEAR AND TEAR.

The allowance on this head is in a very special position.

It is given only to traders, not to professional men.

It is given, not on any average, but on a separate calculation on the figures of the particular year, after that year's profits have been fixed by average or otherwise.

It is not given on land, buildings, goodwill, &c., for these are capital; nor on utensils, for these are frequently renewable, and may be charged as expenses. That leaves machinery, plant, fixtures, and heavier articles of furniture and fittings, to which it is confined.

A special list must be kept of the machinery, &c.; the depreciation allowed each year must be deducted; and next year's allowance is calculated on the reduced figure, plus additions.

If the profits are less than the allowance, the excess of the allowance is carried forward against subsequent years, and even a successor in the business is entitled to the

benefit of any such excess which stands at the credit of the business when he comes in, even though he has not purchased or succeeded to the identical plant.

The claim must be made in the return or before payment; there can be no repayment. An exceptional case is stated on p. 211.

Alternatives.—The trader may follow either of the following courses:

1. *Claim Wear and Tear.*—In this case he may, in addition, charge to profits—(1) repairs to plant and machinery; (2) renewals of utensils; (3) repairs to buildings, so far as not allowed under Schedule A; (4) the written-down value of any machine discarded as obsolete, and replaced, less salvage; but (5) not renewals of plant and machinery, nor (6) depreciation of stock, though he may virtually obtain this as the result of the basis on which he takes stock, subject, however, to any undervaluation being corrected by actual realisation in the succeeding year.

2. *Not Claim Wear and Tear.*—In this case he may charge to profits all the items (except No. 6) mentioned in the preceding paragraph, including renewals of plant and machinery, but not additions.

Wear and tear is an actual deduction from income, and not a mere tax allowance; so, of course, is obsolescence. These come off before the deduction is made of one-tenth income earned.

Up to April 1918 the Commissioners of Inland Revenue were final on all questions affecting allowances for wear and tear. That has now been altered, and an appeal is given to a Board of Referees.

It appears that in certain cases wear and tear may be allowed on one part of the plant, and renewals on another part.

We pass now to consider certain

PARTICULAR OCCUPATIONS.

It is assumed that the preceding part of this chapter, and particularly from p. 61, has been carefully read, and what follows is supplemental to meet special cases.

Shopkeeper or Trader.—He will make up an account for his own information. For that purpose he will take stock. He will debit interest on his capital. If he has borrowed money, he will, of course, debit the interest. He may also charge a salary for himself and one for his wife. The depreciation which he enters may be more or less than the Income-Tax authorities will allow. Such an account will not serve for income-tax purposes, and accordingly, on the basis of it, he must adjust a special new account, in order to arrive at his income-tax income for the year. The following may serve as an example.

TRADER'S OWN ACCOUNT FOR YEAR TO 31ST DECEMBER 1919.

Stock, 1st January 1919 . . .	£500	Sales	£6000
Goods purchased	5000	Stock, 31st December 1919 . .	600
Rent	50		
Rates	10		
Wages	200		
Income-tax (1)	30		
Transport	50		
Travelling	20		
Loan interest (2)	50		
Bank interest	30		
Balance on discount account	20		
Repairs	20		
Bad and doubtful debts . .	50		
Renewals	20		
Depreciation (3)	20		
Salary to self (4)	130		
Stationery, telegrams, telephone, and postage . . .	50		
Advertising	50		
Interest on capital (5) . . .	25		
Profit	275		
	<u>£6600</u>		<u>£6600</u>

The items numbered above (1) to (5) cannot stand for income-tax purposes. No. 1, income-tax, is never a deduction. No. 2, loan interest, comes out, because when it is paid tax is deducted; but note that the bank interest stands, because it is paid without deduction. No. 3, depreciation, cannot stand alongside of renewals, which are also charged above. Nos. 4 and 5 are just trader's income. So the following would be the adjusted

ACCOUNT FOR TAX PURPOSES.

Stock, 1st January 1919	£500	Sales	£6000
Goods purchased	5000	Stock, 31st December 1919	600
Rent	50		
Rates	10		
Wages	200		
Transport	50		
Travelling	20		
Bank interest	30		
Balance on discount account	20		
Repairs	20		
Bad and doubtful debts	50		
Renewals	20		
Stationery, &c.	50		
Advertising	50		
Profit	530		
	<u>£6600</u>		<u>£6600</u>

Assume that for the years 1917 and 1918 accounts adjusted in the same way showed a loss of £100 and a profit of £470, the statutory income for 1920-21 on the three years average would be £300, arrived at thus:

Profits, 1918	£470
" 1919	530
	<u>£1000</u>
Loss, 1917	100
	<u>3)900</u>
	£300

After deduction of the 10 per cent. for earned income this would show £270, and that may be subject to the marriage

allowance of £225, and the small balance may be exhausted by allowances for children.

Clubs and societies for social, political, literary, sporting, and other purposes are not taxable as on 'profits' from members' subscriptions, &c. They may be taxable under (1) Schedule A, on net assessment of premises owned; (2) Schedule B, on occupation of land, but on the annual value only, and not double value, unless the land is being used for husbandry, or is unreasonably being used for purposes other than husbandry; (3) Schedule D, on (*a*) drawings from non-members, less a proportionate share of outgoings, and (*b*) interest or dividends from investments, or these may be taxed at the source. These bodies do not have the benefit of any exemption limit, the earned income relief, or the rate relief on the first £225.

APPEALS.

Note carefully that the fact that the tax may be payable in two instalments does not extend the time for appeals or give you a second opportunity of appealing.

This is not a law-book; but it is useful to state that the tribunals you have to deal with are:

First, the Inspector. With candour, courtesy, tact, and firmness, you ought in ordinary circumstances to be able to obtain nearly all you wish or are entitled to without going beyond this useful official. But if not, then:

Second, the Commissioners. There are District Commissioners and Special Commissioners. The former are local unpaid judges. The latter are paid officials who are located in London, but visit other places to hear appeals. They deal with Schedule D only, and when you fill up your return you can state that you prefer to have your case dealt with by them, and that will receive effect. When you appear before the Commissioners you are entitled to engage legal assistance, also to be represented

by an accountant. If this tribunal does not satisfy you, then, but only on a question of law :

Third, the Law Courts—the High Court in England, Wales, or Ireland, and the Court of Session in Scotland, with finally an appeal to the House of Lords ; as to which our general advice is—Don't.

CHAPTER 8.

PROFESSIONAL INCOMES.

FROM the income-tax point of view what distinguishes the professional man from a manufacturer or a trader is that the professional man has practically no stock-in-trade. Accordingly he is allowed to settle his tax liabilities on either of two systems of accounting—namely, (1) cash and (2) earnings. The authorities are indifferent so long as one system is selected and adhered to.

Cash System.—In this case you ignore all you have earned if you have not actually received it; and you also leave out expenses, if any, incurred but not paid. Of course, all these will come into the account of the next or some subsequent year. You thus save yourself all trouble about bad and doubtful debts due to you, for you enter up nothing except what has actually been received in cash. Note, however, that this is apt to cause some little trouble at the close of a business, or when changes occur, for there may then be a back liability for tax. Further, if tax is rising, it would have been better to get the outstanding items cleared at the lower rate than later at the higher rate; *vice versa* with a falling rate.

Earnings System.—In this case you value and enter all outstanding earnings and income liabilities. Bad debts do not go in. You are allowed to make reasonable specific allowances for doubtful debts. If this year you receive payment of an account which was earned and entered last year, nothing goes into this year's account, if you receive exactly what you entered last year; if you receive more, enter the excess this year; if less, enter the deficiency

among the deductions from this year's income. As to 'discounts,' (1) if you know you will have to allow off so much, enter the net sum only; and (2) if you know you will have to wait, say, six months for payment, consider as to time-discount on that head.

Another peculiarity of professions is that they can at present obtain no allowance for wear and tear of plant, but they are allowed to charge repairs and renewals, less salvage.

Professional men are assessed on the average rules which have been explained in Chap. 7. But official appointments are an exception. They strictly fall under Schedule E (see p. 76), and ought to be charged on the amount of the year of assessment; but usually no objection is made though they are brought into the Schedule D average. If this is done, it ought to be made clear.

Obviously there are certain professions to which no overt reference ought to be made here. As a fairly typical case to be dealt with we take that of

DOCTORS AND DENTISTS.

They will consider whether they are to proceed on the cash system or the earnings system. In fact, the great majority of doctors and dentists adopt the cash system.

What has been said above about official salaries is very much in point.

Official houses or quarters rent-free are not (yet) 'income;' and the same applies to free board, service, heating, lighting, and rates.

Receipts from the sale of drugs are income.

In making up an annual account of profits of the practice, each doctor is entitled to select any closing date which he may find most convenient. He is not bound to close his financial year on 5th April. Say he selects 31st December; then the three accounts on which will be based his average

assessment for 1920-21 will be those for the years 1917, 1918, and 1919.

Deductions.—Especially under the cash system there can hardly be any difficulty in making up the in-come side of the account. The difficulty is in the out-goings—that is to say, what items are chargeable as expenses of the practice. The doctor must bear in mind that, like medicine, income-tax is not an exact science. The District Commissioners have a certain amount of power and discretion, and the result is that there are variations in different localities. It is quite possible that we have not exhausted the subject in the following list, which is submitted for consideration when the account is being settled.

1. Rent or annual value of separate premises used exclusively for practice.

2. Proper proportion of rent or value of premises where he lives according to part used for practice, not exceeding two-thirds, whether owned or rented.

3. Rent or annual value of garage or stable.

4. Inhabited house duty, tenant's rates, and general repairs corresponding to the above.

5. Heating and lighting corresponding to the requirements of the practice; probably at least two-thirds of the whole, and possibly more.

6. Assistants and *locum tenens*.

7. Service applicable to the practice, including coachman, chauffeur, house servants, secretary or book-keeper, licence for man-servant.

8. Corresponding National Health and Workmen's Compensation insurance.

9. Travelling, including railway, carriage, car, cycle; not original cost of carriage, horses, car, or cycle, but licences, running expenses, repairs, and renewals less salvage.

10. Furniture and furnishings of professional rooms; not original expense, but repairs and renewals.

11. Instruments and appliances; not original expense, but repairs and renewals.

12. Medicines, &c.

13. Electric current.

14. Various insurances; e.g.:

(1) Fire insurance of furniture and furnishings of professional rooms.

(2) Fire insurance of books, instruments, appliances, medicines, and other professional effects.

(3) Insurance of and connected with car, carriage, horses, cycles, including third-party risks.

(4) Insurance against consequential fire loss—i.e. the loss which the practice might suffer if the house were burned, necessitating even temporary removal.

(5) Insurance against professional responsibilities.

(6) Insurance against burglary, &c.

(7) Fire insurance of all literary work, whether in MS., in course of publication, or in book form.

It is suggested for the reader's consideration whether he has sufficient insurance protection, as regards both covering all the different classes of risks, and also making the insurances of sufficient amount to cover present greatly increased prices.

15. Certain uninsured losses.

16. Expense of removal.

17. Expense of recovery of fees and of income-tax adjustments.

18. Certain professional liabilities and relative legal costs.

19. Accustomed gratuities to retiring servants.

20. Professional subscriptions and literature.

21. Telephone, telegrams, stationery, and postage.

22. Bad and doubtful debts, but not if the cash system is followed.

23. We have kept to the end the important item of bank

interest paid. This, if it exists at all, will be debited by the bank once a year, and the bank-book will show how much it is.

On the accounts for the three preceding years the statutory income of the current year is arrived at by taking the average of these three.

Earned Income Relief.—Statutory income is subject to deduction of one-tenth (but not exceeding £200) income earned. This one-tenth is arrived at by adding up the profit of the three preceding years, *without* any such deduction; then take one-third of that, and from that one-third deduct 10 per cent. or £200, whichever is the less. Thus:

Profits, 1917	.	.	.	.	.	£1200
" 1918	.	.	.	.	.	1600
" 1919	.	.	.	.	.	2300
						<u>3)5100</u>
Average for 1920–21	.	.	.	.	.	£1700
Deduct earned income relief	.	.	.	.	.	<u>170</u>
Assessable income from the practice	.	.	.	.	.	£1530

This £1530 is the figure which goes into the income return; but, of course, the £1700 will be stated also, and it will be shown clearly that the earned income relief has been taken off. All other sources of income, and wife's income, will also be stated.

Then there may be important legal burdens to be deducted from income. Reference is made to p. 37. The most probable items are (1) ground burdens on house; (2) mortgage interest; (3) interest on price of practice so far as unpaid; (4) annuities to predecessor or his widow. These must all be stated. On payment of them, tax is deducted at the full standard rate, and the doctor has to pay that over to the Exchequer. On the other hand, these deductions may keep him immune from super-tax.

Then there are the personal (or marriage) and family

allowances, which may be very important; also life assurance allowance.

Partnerships.—Income-tax accounts and adjustments in partnership cases are gone into in Chap. 25. How to ascertain, for taxation purposes, the share of each partner is explained on p. 59. We impress the fact that the incidence of the tax among the partners requires careful attention. Serious mistakes are very easily made.

Other Professional Men.—From the above the lines will easily be followed. The first question is, cash or earnings?—see p. 71. In income are included any premiums or fees paid by pupils or apprentices. As to outgoings, note—(1) no allowance for travelling to business; (2) no depreciation, but repairs and renewals; (3) no family or household charges, but purely items necessary to the practice; (4) income-tax is not a deduction, but (5) interest is—for example, interest paid to a bank on borrowed money.

SCHEDULE E.

This seems the most appropriate chapter in which to deal with Schedule E. That schedule applies to those who, to put it very briefly, are in official employment. The blue return form No. 12 bears that it covers 'salaries, fees, wages, perquisites, pensions, and profits of any office or employment in any county, borough, town corporate, or place; or under any ecclesiastical body; or under any public corporation, company, or society; or under any public institution or any public foundation; or under any trusts or guardians . . . and any other public office or employment of profit of a public nature.' Those who require to fill up Schedule E are the persons who do not get the benefit of the three years average; as to which, see p. 23. But, further, Schedule E does not apply to weekly wage-earners, though they are dealt with on the same lines.

The principal matters to be noted in connection with assessments under Schedule E are :

1. The income to be taxed is that of the year of assessment, 6th April to 5th April. But the official form asks you to distinguish between (1) 'salary, fees, and other *fixed* emoluments for the *current* year,' and (2) 'commission, bonus, and other *fluctuating* emoluments.' The first of these is taken at the figure of the year to which the return applies. No. 2, sometimes known as 'perquisites,' may be taken on the figure of the previous year, or even on the average of the three preceding years. Which mode shall be followed is left to the option of the tax-payer, but he must stick to one way of it when once adopted.

2. That gives the gross figure, but then there may be deductions before arriving at the true income. The official form goes on to ask for a statement of 'expenses wholly, exclusively, and necessarily incurred in the performance of the duties of the office or employment, and claimed as a deduction from gross profits.' On this head reference is made to pp. 61-65. Directors are not allowed to deduct cost of travelling to attend meetings, but they may deduct cost of journeys between different shops or other establishments of the concern. A man holding more than one appointment may not deduct the expense of travelling between the places where the duties of the different appointments have to be discharged. Further, the Treasury may fix an average sum as a fair equivalent for expenses wholly, exclusively, and necessarily incurred by any 'class of persons' drawing payment from the public revenue (such as officers in the navy, army, and air force, and members of Parliament) in the performance of their duties. Up to 1920 it is understood that £100 was in this way allowed off the M.P.'s 'salary' of £400; but now it appears that the view is being acted on that the £400 is not taxable income at all, but is wholly a refund of expenses.

3. Many tax-payers derive part of their professional income from sources chargeable under Schedule D, and part from sources chargeable under Schedule E. Thus a medical man may hold the position of consulting physician to some public institution, the official salary for which is a relatively small part of his professional income. On the other hand, the highly paid secretary of an important company may have a regular, though comparatively trivial, income from literary pursuits. In the latter case it might be necessary to fill up both forms No. 11 (Schedule D) and No. 12 (Schedule E); but in cases such as the former, usually no objection would be taken to including both sources of income under the D form, but it ought to be expressly stated.

4. As to what is income, and particularly 'perquisites,' remember the rule that you are to be taxed on nothing merely because it is valuable to you, if it is not such that you are allowed to, and can, turn it into money, which is quite a different thing from your being saved expending money because you enjoy the perquisite. See p. 24.

5. If additional profits turn up during the year, you may receive an additional assessment to tax you on these. On the other hand, there is proportionate relief in case of death or retirement during the year of assessment.

6. No appeal to the Special Commissioners.

7. Tax payable in half-yearly instalments.

CHAPTER 9.

THE CLERGY.

THE whole official income of clergymen and ministers, no matter in what form received, is earned income. The problem is to obtain :

1. Allowance for all expenses. It is only after these are deducted that the earned income appears.

2. Ten per cent. of the earned income as thus ascertained, but this ten per cent. deduction is not to exceed £200.

3. The personal (or marriage) and family allowances.

4. Reduction of tax to 3s. on the first £225 of the remaining taxable income. The balance is liable for the full 6s.

5. Any life assurance (including widows' fund contributions) relief which may be claimable against the tax thus ascertained ;

always allowing for

6. All relief already obtained in the shape of income, earned (e.g. congregational supplement) or unearned (e.g. war loan interest), received without deduction of tax.

So far as not under Schedule A (rectory, manse, glebe), B (occupation of glebe), C or D (endowments), the assessment on official income is always under Schedule E, which is explained on p. 76, except in the case of Congregational and some other ministers elected by their congregations, when the assessment is under Schedule D on the average of the three preceding years, with the options stated on pp. 54-59. But this reference to election by congregations as a test between E and D does not hold in Scotland, where, even in the Church of Scotland,

there is popular congregational election, and yet Schedule E applies.

The glebe, if in personal occupation, will be charged in that respect under Schedule B on double the annual value in addition to the Schedule A assessment, and thus three times the annual value will in that case be part of the income. But if, or so far as, the occupation is for husbandry only, there will in respect of the occupancy be the options open to farmers as stated in Chap. 10.

Official Residences.—In the case of the clergy and ministers of the Established Churches of England and Scotland the rectories, vicarages, and regular parish manses are technically (earned) income of the incumbent. It is legally otherwise in the case of all other clergymen and ministers. Of course, in all cases Schedule A tax must be paid; but in those other cases any house which may be supplied is a perquisite, and the annual value does not go to swell the occupant's income for tax purposes. As to this it makes no difference whether or not, by arrangement between him and the trustees or congregation, he has to pay the Schedule A tax. But now an option is given to the minister to intimate to the Inspector of Taxes—each year not later than 30th September—his election to have the annual value of the house (less ground burden and any mortgage interest) charged as part of his taxable earned income. Where the occupation of the house commenced after 30th June of the year of assessment, the intimation may be any time within three months after the commencement of the occupation.

If that option is not exercised, the Schedule A tax will be levied on the trustees at 6s. per £, and no repayment can be obtained. If the option is exercised, the result may be no tax at all, or the full 6s. rate, or anything between, according to circumstances. When the total (other) income of the minister and his wife does not exceed £135

(if there is now such a case), the Schedule A assessment on the house is usually, or at least sometimes, waived *ex gratiâ*.

THE CLERGY OF THE CHURCH OF ENGLAND.

The official form No. 38EC, issued for the use of the beneficed clergy in England, requires a statement of the clerical income which the incumbent 'expects to receive for the year ending 31st March of the year of assessment'—that is to say, 31st March 1921 for the tax year 1920-21.

The rectory or vicarage and glebe are earned income.

Arrangements exist between the Ecclesiastical Commissioners and the Governors of Queen Anne's Bounty on the one hand, and the Inland Revenue on the other, for the adjustment of the deductions of income-tax made by the Commissioners and Governors from their respective payments to incumbents, in order to obviate, at least as far as possible, the necessity for any repayment claim by the incumbents.

In spring the incumbent receives, without application, from the Ecclesiastical Commissioners (1) a Prevention Form, No. 38EC, and (2) a certificate showing the amounts which will fall to him from the Commissioners during the twelve months ending on 1st May of the *following* year. If any part of the income of the particular benefice is received from the Governors of Queen Anne's Bounty, the incumbent will receive similar forms from them also. He should then at once fill up only one of the forms, 38EC, also Expenses Form 72 (p. 89), and send them, and the certificate or certificates by the Commissioners and Governors, to the local Inspector of Taxes. This puts the Inspector in possession of the incumbent's whole income-tax position, and enables him to adjust the account. He has regard to the incumbent's true tax liability according

to the total amount of income, earned and from investments; wife's income; and the various allowances, &c., which may include all or some of (1) expenses, (2) personal or marriage, (3) housekeeper, (4) children, (5) dependants, (6) assurance, (7) bank interest, (8) graduation, (9) Dominion tax relief. He has also regard, on the one hand, to (1) the amount of tax which he knows will be deducted against the incumbent at the source and at the highest rate—e.g. payments from tithe and endowments, and many items of the investment income of the incumbent and his wife; and, on the other hand, to (2) income, earned and from investments—e.g. war loan and bank deposit interest—received free of tax. The account can scarcely possibly be such that the total exemption from tax of the payments from the Ecclesiastical Commissioners and Queen Anne's Bounty will exactly square matters. Almost necessarily the total exemption of these payments would give the incumbent either too much or too little. If too much, the exemption will not be total, but only partial, and *some* deduction of tax will be made from these payments when they are remitted to the incumbent. In that case, if the figures have been correctly handled, the thing is complete for that year, and no Repayment Claim is required. If, on the other hand, even total exemption of the payments from these two sources still leaves the incumbent bearing too much tax owing to deduction at the source, the Schedule A tax on rectory and glebe, and any Schedule B, C, or D tax, *may* be cancelled. If all that is not enough, the incumbent must send in a Repayment Claim, which he may do within a time-limit of three years, but may do yearly or half-yearly.

In either case the Inspector (1) furnishes the Ecclesiastical Commissioners and the Governors of Queen Anne's Bounty with certificates of the amount of tax, if any, to be deducted by them, and (2) on application by the incumbent furnishes him with particulars of the allowances made

on the various heads above mentioned, or such of them as apply.

Payments becoming due from the Ecclesiastical Commissioners after 1st May and up to and including 1st August are made without tax deduction. The amount of tax, if any, certified by the Inspector as payable is deducted from the payments becoming due after 1st August and up to and including 1st May of the following year. In the case of quarterly payments, the tax, if any, certified by the Inspector as deductible is deducted as follows:

From payments due in—						Share of Tax deducted.
First quarter to and including 1st August	.	.	.	.	.	Nil.
Second " " " 1st November	.	.	.	.	.	One-half.
Third " " " 1st February	.	.	.	.	.	One-fourth.
Fourth " " " 1st May	.	.	.	.	.	One-fourth.

But this rule may be modified where any payments are made yearly or half-yearly.

If the Ecclesiastical Commissioners and the Governors of Queen Anne's Bounty do not receive certificates from the Inspector before 15th August, then the risk is that from the later payments that year such deductions will be made as amount to the highest rate of tax on the whole payments for the whole year. The incumbent ought, therefore, (1) to bestir himself if, owing to any miscarriage, the papers do not reach him very early in May; (2) to fill up promptly Form 3SEC, also Expenses Claim 72, and send these and the certificates to the Inspector; and (3) inquire of the Inspector in ample time before 15th August how matters stand, and what certificate he has given to the two bodies.

Church of England Clergy, Form 38EC.

No. 1. PARTICULARS OF INCOME.	Amount.
Emoluments of Office.	
1. Grants receivable from the Ecclesiastical Commissioners	
2. Dividends and interest receivable from them	
3. Other receipts (if any) from them	
4. Dividends and interest received direct from banks and companies	
5. Dividends and interest from the Governors of Queen Anne's Bounty	
6. Tithes (net)	
7. Easter and other offerings (see p. 85)	
8. Surplice fees	
9. Pew rents	
10. Annual value of rectory, vicarage, &c.	
11. Annual value of glebe	
12. Grants from clergy sustentation funds; payments by patrons, &c., towards stipends; stipends from lay impropiators and other sources (<i>full particulars</i>).	
Total	
Deductions claimed (<i>full particulars</i>). This refers to deductions of the class mentioned on pp. 85, 89	
Net amount	
Income other than Emoluments of Office.	
From any other profession, employment, or vocation, or from any pensions (other than a wound, disablement, or disability pension)	
From property (<i>specify exactly</i>)	
From the occupation of glebe or other lands	
From dividends, interest, annuities, Colonial and foreign securities and possessions, and any income not entered elsewhere :	
1. Income subjected to United Kingdom income-tax before receipt, or 'tax-compounded' (<i>full particulars</i>)	
2. Income not subjected to United Kingdom income-tax before receipt (<i>full particulars</i>)	
Wife's Income.	
1. Taxed before receipt } (<i>full particulars</i>)	
2. Untaxed }	
Total income	£900

Brought forward . . .		£900
No. 2. PARTICULARS OF CHARGES ON INCOME.		
Ground rent on, payable to	Annual Amount.	
Mortgage, £ at per cent. from		
Payment to licensed curate (<i>name</i>)		
Pension to retired incumbent (<i>name</i>)		
Annuities payable to		
Other annual charges, if any, viz. :		
1. Interest to X Bank paid without deduction of tax		
2. Expenses conform to Form No. 72 herewith (see p. 89)		
Total charges, say		210
Total amount of income from all sources, less charges		£690

As to Easter and other offerings entered above, the principle is that these are chargeable though voluntary, because they are given to the incumbent as such, and are, therefore, received by him by virtue of his office. It has been suggested that a special offering or present, expressly to meet the expense of, say, foreign travel, might escape, and contributions by non-parishioners may be in an exceptional position.

Deductions.—A clergyman is entitled to the following deductions:

1. The amount of any tenths and first-fruits, duties and fees on presentations, paid by him in the preceding year.

2. Repairs and fire insurance of any chancel of a church which he is bound to repair.

3. Procurations and synodals on the average of the seven preceding years.

See also pp. 89, 90.

PARISH MINISTER IN SCOTLAND.

Whether the detailed statement of total income is contained in

Form No. 38, Scotland, the 'prevention' form corresponding to 38EC for the clergy of the Church of England; or in

Form No. 12, the Schedule E Return; or in

A Repayment Claim form,

it necessarily results that the lines are the same as those shown above on p. 84, except as regards the official income *qua* parish minister. Manse and glebe are earned income. The following form contains, it is thought, all possible sources of parochial income, and accordingly it is improbable that all these ever have been, or will be, found in actual combination. The statement of legal burdens differs only slightly from that above, but payments to assistants are not passed as deductions.

The Widows' Fund contribution goes into the life assurance claim. For deductions, see p. 89.

Detailed Statement of Official Income—
Church of Scotland.

	Amount.
Stipend	
Income of special endowment or trust, if any	
Congregational supplement.	
Manse } Schedule A assessment {	
Glebe }	
Glebe, if worked by the minister, Schedule B assessment .	
Income of invested fund representing commutation of fish teinds	
Income of invested fund representing price of part of glebe sold	
Fen-dues from glebe	
Duplicands from glebe fens (1)	

(1) These may, or may not, go to the minister, according to circumstances. If not, they fall to be capitalised, and the tax on them is got

	Amount.
Income from capitalised duplicands	
Mineral way-leave from glebe (2)	
Income of invested fund representing proceeds of mineral workings on, or under, glebe (3)	
Glebe shooting rent	

Ann.—It may be useful to refer here to the special matter of ‘Ann’—namely, the half-year’s stipend payable to widow and children or next-of-kin of a parish minister in Scotland who dies in office. It is not part of the deceased minister’s estate, and is not at his disposal nor subject to his debts. In regard to income-tax, the official practice has been recently reversed. The rules now are: it is paid less tax; it is treated as *earned* income of the recipients, and they are allowed repayment accordingly with reference to their total incomes.

back and increases the invested sum. If they go to the minister merely to reimburse him for outlay on roads, &c., that is not income, and no tax is payable.

It is proper to note here that, assuming development outlays all repaid, it appears that the full lump compensation moneys paid by feuars under the Feudal Casualties (Scotland) Act, 1914, go to the minister. At least, two things may be said—namely, that the minister ought to be slow to admit the contrary, or to admit that there is any liability for income-tax on these lump payments.

(2) This—which is very rare—is income pure and simple. It will go to the minister as such. He must pay rates on it, and these must come off as deductions before fixing his true tax liability. But that has to be done by adjustment or repayment claim, as the full normal rate is deducted on payment.

(3) The trustees for the Presbytery and heritors obtain repayment of the tax deducted at the source, and the money, less any expenses, is capitalised and invested. This applies to both fixed rents and royalties; also to payments for surface damage to the glebe by the workings. In some cases the minister is recognised as entitled to a share of these payments as income, in which case note (2) above applies. This share is allowed to the minister on account of the inconvenience occasioned to him and his household by the workings; is it always claimed when it might be?

Quoad Sacra Parishes of the Church of Scotland.

Sources of official income may be :

1. Income of endowment.
2. Local supplement.
3. Seat rents.
4. Grant from Smaller Livings Fund.
5. Manse. This may or may not rank as minister's income, according to circumstances. See p. 80.

NOTE.—As to Nos. 1 and 4, the trustees will obtain from the Revenue repayment of any tax deducted against them on collection of the income. They are thus able to pay to the minister without deduction of tax, leaving him to settle with the Revenue for his proper tax liability.

The Widows' Fund subscription goes into the life assurance claim.

The Roman Catholic Church.

The following notes are confined to the secular clergy.

1. *Endowments*.—When these exist the income may go to the charge, or to the priest or member of the hierarchy. If and so far as the former, the whole tax should be reclaimable. If and so far as the latter, it is earned income.

2. *Honorarium*.—This, which, if received at all, is understood to vary up to £40 or £50, is income, but of course ranks as earned income.

3. *Presbytery*.—The priest's house is a perquisite, and not income ; but see pp. 24, 80.

4. *Maintenance*.—This means the priest's right to debit board, light, heating, and attendance to the funds of the charge. It is passed as a perquisite and not taxable.

5. *Expenses* (see p. 89).—This does not arise in quite the usual way. The reason is that all items of expense are debited to the funds before arriving at any surplus available to pay the year's honorarium.

6. *Priest's Private Income*.—This, even if wholly spent on the charge, is investment income for taxation, subject to rights of exemption and allowances, after bringing in and giving effect to the honorarium received without deduction of tax, and endowment income, if any.

Other Churches in the United Kingdom.

Referring to what has been stated on p. 80 regarding any house or manse, all that requires to be added is that arrangements are becoming general to avoid deduction at the source, leaving the settlement to take place between the Revenue and the individual minister. Thus all payments from the Central Fund of the United Free Church of Scotland are now made 'free' in this sense.

Remember the Widows' Fund subscription.

Expenses Claim by a Clergyman or Minister of Religion, No. 72.

	Amount.
1. Expenses of collection of income (1)	
2. Communion expenses (2)	

(1) This may be little more than a few receipt and postage stamps; in other cases, such as some charges of the Church of Scotland in Edinburgh and Glasgow, it necessarily becomes a material item. This branch of expenses is sometimes disputed, and it may soon be brought to a test. In the case of income from tithe rent-charge, it has been definitely decided in favour of the clergyman. In Scotland it is understood that a minister of the Church of Scotland got a favourable decision from local Commissioners in Fife in 1918, but that the central authorities of that Church would not defend the appeal which the Inland Revenue intimated. With all respect, it is thought that the question is serious. In cases alleged to be similar it has been made the test whether the tax-payer 'could not have got the money without incurring the expense.' Now, even if the minister were to do the collecting personally, which in some cases would be absolutely impossible if he is to discharge his sacred duties, still even then he might have to pay for hundreds of circulars, receipt forms, and postage and receipt stamps.

(2) If this expense is not paid by, or is repaid to, the clergyman, it cannot be deducted. But the deduction is in order if the sum received on this account was less income-tax. The true view probably is that such money is not taxable income at all. But note that the item is not

	Amount.
3. Travelling on congregational and parochial visitation both in and beyond the parish (3)	
4. Travelling to outlying charge (4)	
5. Expense of attending Church courts and committees (5)	
6. Upkeep and renewals of means of conveyance (6) .	
7. Pulpit supply during absences on duty (7)	
8. Room used mainly and substantially for the purposes of duty (8)	
9. Corresponding proportion of occupier's rates and taxes (9)	
10. Share of expense of lighting, heating, and service (10)	
11. Expense of removal, at least when that is under ecclesiastical orders	

limited to 'communion elements.' In addition, the expenses of accustomed hospitality to visiting ecclesiastical brothers who come to assist at the services are allowed. These may easily be passed at, say, £15, in addition to 'elements.'

(3) This, according to circumstances, may include all or some of the following: tramway fares, railway fares, cabs, hiring (horse, horse-carriage, motor-car, cycle, or motor-cycle), expense (or share) of keeping, stabling, and running (including wages, if any) horse, horse-carriage, motor-car, cycle, or motor-cycle; also proper insurance premiums.

(4) But sometimes the clergyman receives a grant for this. That would extinguish or reduce the item.

(5) Including hotels or equivalent charges, for which alone £20 may easily be reasonable without any special circumstances.

(6) There can be no charge for depreciation, but all repairs are chargeable, and also the cost of new machine, &c., of corresponding degree, less salvage. For upkeep alone of an ordinary non-motor cycle £3 is passed as reasonable.

(7) Not during holidays. Query as to illness.

(8) The limit is one-eighth of rent or annual value (see Schedule A) of the house. It is allowed whether rent is paid by the minister or the house is occupied by him in virtue of his office, or belongs to him or to his wife.

(9) This has been allowed on appeal from the Inspector to the District Commissioners. It includes inhabited house duty.

(10) As to the measure of the expense of service, note (1) the one-eighth has nothing to do with it. There might even be cases in which the minister's wife would dispense with a whole-time or resident maid if it were not for parish and congregational callers on the minister. In many cases one-third of the whole expense would be reasonable; (2) the expenditure to be regarded is not the mere money wages, but the total expense of the service, usually about double the money wages.

	Amount.
12. Expense of defence against charges, doctrinal or otherwise, or other proceedings arising out of the discharge, or alleged breach, of the duties of the office . . .	
13. Necessary contributions towards expense of similar proceedings against others	
14. Pulpit robes, &c. (11)	
15. Renewals of theological and pastoral books (12) . .	
16. Bad debts (13)	
17. Lost glebe rents	
18. Stationery, &c., for correspondence, sermons, parish lists, &c. (14)	
19. Cost of Directory, &c.	
20. Postage, telegrams, and telephone (15)	

Generally there is reason to think that many clergymen wrong themselves by not keeping some kind of detailed account of such expenditure. Accounts applicable to a few years would supply a strong basis for an average.

Note further that in the case of the clergy of the Church of England Form 38EC specially provides for deduction of payments to licensed curates and any pension to a retired incumbent. In Scotland there can be no allowance for payments to an assistant (but a division of the stipend between the parish minister and an assistant and successor is a different matter), nor for the expense of an augmentation of stipend.

(11) So far as not presented these are covered by the analogy of military uniforms.

(12) New editions to replace old, and new books to replace superseded ones on same subject.

(13) In practice an allowance is made to the amount of last year's losses in collection of the official income.

(14) £7, 10s. allowed in a moderately sized charge when paper was much cheaper; say £12 now in such a charge.

(15) £5 allowed in the same case when these Government services were cheaper; say £10 now in such a charge.

CHAPTER 10.

FARMERS.

FOR taxation purposes farmers are those who occupy land for 'husbandry.' That is not limited to tillage; it includes sheep-farming or other live-stock production. It was thought necessary to obtain a ruling to this effect from the law courts, but it was decided many centuries ago. 'I am an husbandman; for man taught me to keep cattle from my youth' (Zechariah xiii. 5). They have the option to be assessed on either of the following bases:

(1) Schedule B. That means—take the rent, deduct cottages, and double the remainder.

Or (2) Schedule D. That means—on profits ascertained in terms of the income-tax Acts.

They may change each year. If they choose profits, they must intimate in writing to the Inspector of Taxes before 5th June, or in Scotland before 5th August. Even if they choose the double rent basis, they may always, at the end of the year, produce an account and show that the profit has been less than the doubled rent assessment, or that no profit has been made, and so obtain a readjustment of tax.

Whether they take the one basis or the other they are entitled to all allowances. Thus, if the rent is £80, less cottages, £5—net £75; this doubled is £150, and so even an unmarried man is exempt. Again, rent £135, less cottages, £10—net £125; this doubled is £250, and so a married man is exempt.

But, of course, other tax allowances may result in very much higher scales of effective exemption. Thus:

Rent, £315, less cottages, £15—net £300; which doubled		
gives		£600
Less bank interest		50
		<u>£550</u>
Earned income relief	£55	
Marriage allowance	225	
Five children	144	
Two dependent relatives	50	
Life premiums	76	550
No tax payable.		

Again—

Rent, £540, less cottages, £30—net £510; doubled	£1020	
Earned income relief	£102	
Marriage allowance	225	
Three children	90	417
Taxable income		<u>£603</u>
Tax £225 at 3s.	£33	15
378 at 6s.	113	8
<u>£603</u>		<u>£147 3</u>

Less life assurance allowance—

£100 premium on pre-1916 policy at 4s. 6d. (because income over £1000)	£22	10
£50 premium on post-1916 policy at 3s.	7	10
		30 0
Net tax payable		<u>£117 3</u>

In the above instances it is assumed that there is no income other than the farming profits. But now take a case where there is other income also.

Rent, £420, less cottages, £20—net £400; doubled	£800	
Less bank interest	20	
		<u>£780</u>
Farmer's income from investments	100	
Wife's income from investments	50	
		<u>£930</u>
Earned income relief	£78	
Marriage allowance	225	
Three children	90	
Two dependent relatives	50	443
Taxable income		<u>£487</u>
Tax £225 at 3s.	£33	15
262 at 6s.	78	12
<u>£487</u>		<u>£112 7</u>
Less life premium of £60 on 1917 policy at 3s.	9	0
Net tax payable		<u>£103 7</u>

If the £150 of investment income is all taxed at 6s.
at the source, that is £45 0

And the tax on the farm, Schedule B, will be
restricted, so as to amount to the balance of 58 7 £103 7

If it is not worked out in this way a repayment claim will be required.
It is assumed that the bank credit is for the farming business.

If the farmer chooses the profits basis, it is the average profit of the three preceding years according to accounts on the income-tax footing, as explained on pp. 60, 68. This means some book-keeping.

Depreciation and obsolescence can be claimed only if the assessment is under Schedule D on profits, or in an account for short profits under Schedule B. It is available to a proprietor who farms his own land, including trustees. It applies to the farm plant, machinery, and implements. When obtained, it is an actual reduction of income. There is apt to be difficulty in view of the farmer taking Schedule B some years and Schedule D other years, and it may be found better to proceed on the second method stated on p. 66—namely, not to claim wear and tear, but to charge all renewals of plant against the year's profits. In some districts the farmer is allowed to charge depreciation as regards one part of the plant, &c., and renewals as regards the balance.

It is not to be assumed that the double rent basis covers all dealings by the farmer in crops and stock, even though in the latter case the stock is all produced on, or brought on to, the farm. In addition to his double rental assessment under Schedule B, he may be assessable under Schedule D if he makes a business of stallion-hiring, or of stock-breeding or milk production on a scale disproportionate to the holding, or of feeding in houses more stock than the holding would itself carry, or of dealing or speculating on the produce and stock markets, or of hiring out agricultural machinery.

Partnerships.—A farming partnership is not different

from any other partnership, and the income-tax results are the same. If there are two partners equally interested, it follows that two bachelors may have a Schedule B assessment of £300, and each be exempt, if they have no other income; and life assurance might carry it higher. But joint-tenancy is not partnership, though it is one indication of it. It is not uncommon for a son's name to be in the lease along with his father's, though the latter has the only real interest, and the former is really only an employee. In any case, joint-tenancy does not prove that the joint-tenants are equal partners. In view of these known facts, the Inland Revenue authorities are somewhat inquisitive when a case of partnership is put forward with the result of splitting the profits, multiplying allowances, and reducing the tax. Inquiries are made whether the partnership is verbal or in writing; whether both tenants have equal power to buy and sell; to whom, and in what proportions, the stock belongs; and what sums have been drawn by each during the past year. When a partnership really exists, there ought to be no substantial difficulty in satisfying the Inspector. A very important indication is how the alleged partners stand to the bank account, whether it is in both names or a firm name, and who have power to sign cheques. Just as joint-tenancy does not of itself necessarily establish partnership, so there may quite well be a partnership though the lease is in one name only. It does not require any writing to constitute a partnership.

In partnership cases care should be taken to see that the tax is properly borne as between the partners; see p. 251.

The Farmer's Wife.—Until this year the rule has been that a wife's earned income required to be treated exactly as if it had been earned by the husband unless it was earned in some occupation separate from his, and even then unless the total joint income did not exceed £500. This

is now altered, and the nature of the allowance for a wife's earned income will be found stated on p. 117. It may be that where the farmer's wife actually assists in some department of the farm-work, such as the dairy and poultry and egg production, or it may be in the account-keeping, a fair salary may be put down for her; or, indeed, she may be a partner. If this view is accepted, it may result in the benefit of paying tax on a less total by a sum equal to nine-tenths of the wife's income from the farm, with a maximum of £45. Under Schedule B this relief can be obtained if the wife is a partner, but not if she is merely in receipt of a salary, the reason in the latter case being that the Schedule B assessment is the arbitrarily assumed profit after paying all wages and other expenses. There is no such difficulty in the case of a claim for short profits under Schedule B, or in any assessment under Schedule D. Meantime this paragraph will be taken as a suggestion, and it remains to see how it will work in a case where the facts truly support it.

The following is the substance of the memorandum issued by the Board of Agriculture in May 1918, so far as applicable to the new taxation rules, no new memorandum being available at the time of going to press:

OFFICIAL MEMORANDUM.

1. A farmer has the right to elect to be assessed under Schedule D instead of under Schedule B. In order to be so assessed, he must give notice to the Inspector of Taxes before 5th June 1918 or other year of assessment [in Scotland, before 5th August]. The assessment under Schedule D for 1918-19 must be based on the average of his profits for the three years 1915, 1916, and 1917.

2. Although a farmer does not elect to be assessed under Schedule D, he will not be bound to pay the tax assessed under Schedule B on twice his rental value if he can

prove that he has not made that amount of profit. He can give notice to the Inspector of Taxes at the end of his farming year, and claim to pay only on the actual profit which he can prove he has made.

3. Both in the case of an assessment under Schedule D and in the case of an appeal against an assessment under Schedule B at the end of the year the production of accounts will be necessary.

4. These accounts may be kept in the simplest possible form, provided that they give the following particulars:

(1) The value of the live-stock, implements, corn, hay, straw, and other produce; seeds, manures, and other stores, at the beginning of the year and again at the end of the year.

(2) The payments made during the year for rent, rates, purchase of stock, feeding-stuffs, manures, and other outgoings incurred in carrying on the farm.

(3) The receipts during the year from the sale of stock, corn, or other farm produce, together with an estimate of the value of the farm produce (meat, poultry, eggs, &c.) consumed by the farmer and his family.

(4) The farm debts owing to and by the farmer at the beginning of the year and at the end of the year.

The value of stock, &c., and the debts owing to the farmer at the beginning of the year, together with the year's expenditure, will form the debit side of the account after deducting the debts owing by the farmer at the beginning of the year.

The value of the stock, &c., and of the debts owing to the farmer at the end of the year, together with the year's receipts, will form the credit side of the account after deducting the debts owing by the farmer at the end of the year.

The excess of the credit side over the debit side will give the year's profits.

5. Properly the valuation at the beginning and end of

the year should include, besides live and dead stock, the tillages, growing crops, unexhausted manures, &c. The income-tax authorities are, however, prepared to accept an account that does not contain these latter items provided that the farmer can certify that the valuation has not materially altered during the year, or that he can give particulars of any increase or decrease which has taken place.

6. The farmer should therefore remember that, although he will have to pay in January half of the amount of the tax assessed upon him under Schedule B, he will be able, as soon as his farming year is ended, and he has his accounts ready, to claim to pay tax only on his actual profits. If his claim is admitted by the income-tax authorities, his exact liability will be determined and adjusted before the second instalment of the tax falls due on the 1st July, and he will get a rebate of any part of the tax paid in January which proves to have been overcharged.

7. The farmer who has not hitherto kept accounts must begin to do so if he is to take advantage of the provision that enables him to pay income-tax on his profits instead of his double rent. He should begin at once to make an inventory of the live and dead stock on the farm, entering all the items in a book, and putting the values opposite each. He should buy one of the simple farm account-books which can be obtained as a rule from any country stationer, and from 1st June enter in it the payments he makes and the moneys he receives, according to the instructions he will find therein.

8. It is also desirable that farmers who have not a banking account at present should open one, as their bank pass-books might be of use to them in substantiating a claim for reduction of their assessment.

This is the end of the Board's memorandum so far as now applicable, and with reference to it we add the following comments.

You may select such closing date of accounts as you find most convenient in your circumstances, but once selected you will stick to it.

Any claim for short profits should be made as soon as the year's account is ready, and there must be no delay in getting it ready.

The memorandum does not refer to cottages, but there is no doubt about that deduction as stated and shown above.

Note that a claim for Schedule D must be made, especially in England, approximately at the *beginning of the tax year*, while a claim under Schedule B for short profits is competent promptly after the *close of the farmer's year*.

As to valuations, it is not intended that market fluctuations should be regarded either way, as regards fixed stock, if there is no substantial change in its class or quantity.

If it be suggested that compensation for any unexhausted manure is to be credited in account, it can only be under deduction of all legal and other expenses of ascertainment and recovery, and also under deduction of the landlord's counter-claims. If such compensation is income at all, and is to be credited to the last year of the tenancy, that may be a good reason for keeping to Schedule B in that year at least. But it is most unusual to have it raised at all. For one reason, the farmer very probably paid for unexhausted manures at his entry; that would not be admitted as a business debit to profit and loss, and in that way any corresponding recovery at the close is of the nature of a realisation of capital.

There has been so much said about accounts that we repeat that if you stick to Schedule B absolutely you need no account; that if you want to be prepared to prove short profit for any tax year, you need a proper account for the farm year which corresponds to that tax year;

and that if you are to claim Schedule D, you need accounts for the three preceding years, and practically also for that year itself.

Bank Account.—It would be of the greatest assistance if every farmer would not only keep a bank account, but reserve it strictly for farming transactions, and pass as many as possible of these transactions through it. Sums for household and personal expenses should be drawn out of that account by lump cheques, and, if necessary, paid into a separate bank account kept for domestic concerns. The counterfoils of the cheques should be carefully filled up with intelligible details, and they as well as the cheques themselves, got back from the bank at intervals, should be preserved. These with the bank-book itself constitute valuable evidence and a most useful record. In fact, in some cases the banker becomes a kind of unpaid book-keeper.

Finally, there are the important rules that if you farm two or more holdings, (1) you may exercise your option as between Schedule B and Schedule D for each holding by itself alone; and (2) that if for, say, two of the holdings you do *not* elect Schedule D, you may claim for short profit for either of them by itself alone. We assume that the farms are not only legally separate, as being held under separate leases, but are in fact worked as separate holdings. It might be very difficult for a proprietor with two farms in his own occupation to maintain these separation pleas.

Form of Account.—The leaflet issued by the Board of Agriculture (supplied gratis on application) contains a form of account to be used for tax purposes. It is very detailed, but we do not care to illustrate or advise any simpler or more abbreviated style, though much simpler accounts have often served in practice. In any case, note (1) it is an abstract account of results or totals, not a full day to day account of the dealings; (2) the books are not required,

(3) nor the vouchers; (4) it is not necessary that the account be prepared professionally, or audited at all.

DATES OF ACCOUNTS AND TAX PAYMENTS.

Remember that, whether under Schedule B or Schedule D, the tax is payable one half in January of the year of assessment, and the other half in the following July. If there is going to be any claim for short profits under Schedule B, it is obviously important to have your account ready before even the first instalment of tax is payable. It suits well, therefore, to close accounts about November, which in any case is the natural ending of the arable year. If the account shows less profit than the Schedule B assessment, you can then produce it to the Inspector before the end of the calendar year, and the Schedule B assessment will be cut down accordingly. The payments of tax in both January and July following will be on the lower adjusted figure, and any repayment claim will be obviated. This is 'prevention' instead of 'cure.' Also, this is all under Schedule B, without Schedule D having been invoked at all.

Graziers.—Various cases may be distinguished. (1) A farmer sending stock to winter on another man's farm is, in ordinary circumstances, held to be simply carrying on the work of his own farm, and is covered by the Schedule B assessment. (2) The same applies to the farmer who receives another man's stock for wintering. (3) A farmer renting grass parks by the year is held to be carrying on only extended farming, and has, in respect of the parks, the same option between the average profits and the doubled rent as he has in respect of the main farm. (4) Graziers' profits proper from the hiring of grass parks for the season are outside Schedule B, and are treated under Schedule D on the average basis.

In some of these cases the position of the proprietor requires consideration. He is, of course, chargeable under

Schedule A as owner, but in addition he has to pay Schedule B also. As regards the latter, however, he will, on application to the Inspector of Taxes, obtain a good deal of relief substantially on the basis that he is making a claim for short profits under Schedule B. It is understood that this relief is not infrequently lost through not being applied for.

Nurseries and market-gardens are assessed on profits calculated on the rules of Schedule D. Accounts are, therefore, essential. But note (1) that hop-gardens are treated as farms, and (2) that allotments are exempt.

BANK INTEREST.

Interest paid to a bank is a deduction or ground of relief whether the assessment is under Schedule B or Schedule D. It may be that the deduction of the interest will be allowed only at the end of the tax year when the amount paid to the bank is ascertained. Even so, it will be in time to receive effect against the second instalment of the tax. When this is omitted a repayment claim will be required.

CHAPTER 11.

WEEKLY WAGE-EARNERS.

THIS class has now received special legislative attention and treatment. The novelties are :

1. A return by the employer to the Inspector of Taxes, giving names and wages.
2. Quarterly assessment and collection.
3. The option to the worker to pay in weekly instalments, after the close of the quarter in question, and by stamps.

It seems proper that we should print the official memorandum issued from Somerset House, with such adjustments as are required to bring it up to date.

QUARTERLY PAYMENT OF INCOME-TAX.

1. Income-tax is now chargeable upon all incomes exceeding the exemption-limit, and is to be charged and paid quarterly upon the actual wages, for each quarter, of weekly wage-earners employed by way of manual labour.

The expression 'wages' means earnings of every kind from the employment, however calculated, including overtime, bonuses, &c.

The amount of income on which the tax is payable may, however, be reduced by certain allowances and deductions (see paragraphs 4 and 12 below).

The system of payment of income-tax by quarterly instalments is intended to meet the convenience of the tax-payer, and arrangements for payment of the quarter's tax by a weekly income-tax stamp have also been approved subject to certain conditions (see paragraph 17 below).

The expression 'weekly wage-earners employed by way of manual labour' applies to any occupation which

depends mainly on the exercise of physical exertion, even though a considerable amount of dexterity and training may be involved.

2. The income-tax year runs from 6th April to the following 5th April, and the four quarters end respectively on 5th July, 5th October, 5th January, and 5th April.

3. The assessments will be made by the Inspector of Taxes for the district, to whom employers will be required to make returns of the wages paid by them each quarter. The address of the Inspector concerned will be given on the form or notice sent to the tax-payer.

Every wage-earner when required by notice from the Inspector is bound, within fourteen days from the date of the notice, to deliver to the Inspector a return of his wages for the year or for any quarter thereof, as the notice may require.

The wage-earner will also be called upon, whenever necessary, to make a declaration of his total income, including his wages. This declaration will, as a rule, be required only once a year, and will enable him to claim any of the important deductions and allowances to which he may be entitled, as set out in paragraphs 4 and 12.

4. The deductions that can be claimed from the gross amount of income are as follows:

(a) Earned income relief (p. 109).

(b) Personal and marriage allowances (pp. 109, 110).

(c) Family allowances (see pp. 110, 111).

(d) A deduction for sums paid for insurance on the life of the tax-payer or his wife (see p. 112).

(e) A deduction for so much of any contributions to a Trade Union as is allocated to superannuation or death benefits, and for similar contributions to a Friendly Society.

(f) A deduction for any payments on account of tools, explosives, and similar expenses incurred exclusively for the purposes of the employment; [also in certain cases for clothes and boots].

5. Where in any quarter the amount allowable cannot be deducted in full because it exceeds the amount of the quarter's earnings, the balance will be deducted in a subsequent quarter or allowed by way of repayment.

6. Where a weekly wage-earner is provided with a rent-free residence which he has no power to let and which it is a condition of his employment that he must occupy, the annual value of the residence is not reckoned as a part of his income for income-tax purposes.

7. In the case of certain collieries workmen are granted a free supply of coal for use in their houses. The value of such coal is not reckoned as income liable to assessment.

8. Railway workers in some cases get :

(i.) a clothing allowance in lieu of uniform ;

(ii.) an allowance per night to cover the cost of lodging away from home ;

(iii.) 'coal premiums,' varying in amount, for efficiency in working.

Items (i.) and (ii.) *are not taxable*, but item (iii.) *is taxable*.

9. Sick pay and unemployment pay, received from a Trade Union, Friendly Society, or under the Workmen's Compensation Act or the National Health Insurance Act, *are not taxable*.

Dividends received on purchases from Co-operative Societies *are not taxable*, and should not be included in a return made for income-tax purposes.

10. 'Out-working' and lodging allowances paid solely by way of subsistence allowances to wage-earners temporarily employed away from home *are not taxable*.

11. (Munition work—superseded.)

12. Owing to exceptional conditions mainly arising out of the war, many manual wage-earners are at the present time employed at considerable distances from their homes, and necessarily incur exceptional expenses either in lodging away from home or in travelling daily to and from their

places of employment. Where these circumstances exist a deduction will be allowed in respect of :

(i.) The *actual additional cost* of living away from home, but not to exceed 2s. 6d. per day ; or

(ii.) *the actual cost* of travelling to and from the place of employment.

No allowance will, of course, be made to a wage-earner who receives payment in respect of travelling expenses or the cost of living away from home.

13. Notice of the tax charged will be sent by the Inspector of Taxes each quarter to the tax-payer as soon after the end of the quarter as possible. This notice will show the amount of wages assessed for the quarter, and the deductions that have been allowed for abatement, children, life insurance, &c.

14. If the tax-payer believes that the amount of wages charged in the notice is incorrect, or that the full deductions to which he is entitled are not allowed, it will be necessary for him to see or to write to the Inspector of Taxes within the time allowed for making objection. The Inspector, on being satisfied, will make the necessary correction and issue an amended notice to the tax-payer.

15. Where the Inspector of Taxes is unable to make the correction asked for, the tax-payer is entitled to appear before the Income-Tax Commissioners for the district, and to appeal to them for the correction.

16. The tax charged (or adjusted as above, as the case may be) will be payable within the time set out on the notice to the appointed Collector of Taxes, whose name and address will also be given on the notice.

17. Where the amount of tax due for any quarter *exceeds 6s.*, and the person assessed fills up the form of request printed in space 'B' on the back of the notice of assessment, and sends it, together with the portion of the notice marked 'A,' to the Collector *on or before the day on which, according to the notice, the tax becomes legally pay-*

able, he will be entitled to spread the payment over thirteen weeks on condition that income-tax stamps (obtainable at any Post Office) are affixed weekly to the special card which the Collector will supply for this purpose.

When so required by the Collector, the tax-payer must produce for inspection the card with stamps affixed to date.

The card, duly stamped, must be delivered to the Collector at the end of thirteen weeks from the date of its issue.

18. In many cases arrangements have been made between employers and their workmen whereby the tax due from the workmen is deducted in instalments from their wages and paid over by the employer to the Tax-Collector. Such arrangements are purely voluntary, and will be admitted only where both workmen and employer desire them. The adoption of any such scheme does not, of course, affect a wage-earner's right to receive notices of the charges, to claim all allowances due, and to appeal to the Commissioners if he is dissatisfied with his assessment.

19. Where a deduction scheme is adopted the wage-earner will receive, with his notice of assessment, a form which he can sign, authorising his employer to deduct the tax from his wages. Having signed this form and sent it with the notice of assessment to the employer, the wage-earner will not be further troubled, the tax as deducted being paid over to the Inland Revenue by the employer.

Here ends the official memorandum so far as we can now use it. It was prepared in collaboration with the Parliamentary Committee of the Trades Union Congress, and we propose in the main to let it speak for itself. We shall, therefore, not say over again what it contains, but there are certain aspects which may with advantage be emphasised.

'Weekly wage' does not necessarily mean 'weekly payment of wage.' 'Weekly wage-earner' means a person

who receives wages which are calculated by reference to the hour, day, week, or any *period less than a month*, at whatever intervals the wages may be paid, or a person who receives wages, however calculated, which are paid daily, weekly, or at any *less intervals than a month*.

‘**Manual**’ labour includes all occupations which depend mainly on the exercise of physical exertion, even though a considerable amount of dexterity and training may be involved.

Not regarded as ‘Manual.’—Clerks, typists, draftsmen, shop-assistants, shop-managers, shop-walkers, window-dressers, stock-keepers, timekeepers, checkweighers, store-keepers, van travellers (canvassing and soliciting orders which they supply from van stock), ticket-collectors, theatre attendants, musicians in theatres and cinemas, and foremen whose duties are solely those of superintendence.

Regarded as ‘Manual.’—Assistant foremen, omnibus and tram drivers and conductors, chauffeurs, chefs, cinema operators, dental mechanics, firemen, huntsmen, liftmen, porters, ships’ mates (except where the duties are mainly those of superintendence), tailors’ cutters and tie-cutters (unless supervising others), warehousemen, working dress-makers, working farm bailiffs, and working foremen.

Each quarter’s assessment is on (not one-fourth of a year’s wages, but) the actual wages for that quarter, *less*:

(1) The actual proper deductions (for tools, &c.) for that quarter; but when a flat rate for such items has been arranged, one-fourth may come off each quarter.

(2) The earned income relief applicable to the remainder of the quarter’s wages—that is, one-tenth of the balance after deducting for tools, &c.

(3) One-fourth of the annual personal or marriage allowance, and of the allowances for children, ‘housekeeper,’ dependent relatives, and life assurance.

But the worker is always entitled to see that, over

the whole year taken as one period, (1) he is not charged on what he did not earn, and (2) he receives his full deductions and allowances.

Wages Only.—The quarterly assessment relates to wages only; other income, if any, will be charged in the ordinary manner. What is to be stated is the full amount of the wages (before any deduction), including all overtime, bonuses, premiums, board wages, or other extra earnings. But no amount should be included for the following items, viz. board and lodging, free supplies of coal, rent-free residence which the wage-earner is required to occupy, allowances in lieu of uniform, and 'out-working' or lodging allowances paid solely by way of subsistence allowances to wage-earners employed temporarily away from home.

Wife's Income.—In considering total income, the wife's income if any, must be counted in.

THE VARIOUS TAX ALLOWANCES.

In order that this chapter may be as nearly as possible complete within itself, it may conduce to clearness if the personal, marriage, family, and life assurance allowances are here stated briefly in a self-contained manner.

Earned Income Relief.—This means that one-tenth of wages or other earned income is knocked off before the earnings are brought into the taxation account. Thus £200 is reduced to £180, £300 to £270, and so on. This should be applied to the net earnings. Thus, if the wages are £204, but £4 is deducted for tools, &c., this leaves net wages £200, and the earned income relief is £20, being one-tenth of the £200, not £20, 8s., which would be one-tenth of the £204.

Personal Allowance.—Every person who is unmarried, including widowers and widows, is entitled to a sum of £135 of income, free of tax. That comes off before the

taxable income is reached. There is no limit of income beyond which this is not allowed.

Marriage Allowance.—Every married couple, living together, are entitled to a sum of £225 of income, free of tax. The allowance is given even though husband and wife are living separate, if that is necessitated by bodily or mental disease or conditions of work.

In one case it is more than £225; that is, when the wife also has an earned income. Then to the £225 you add nine-tenths of the wife's earned income, but not exceeding £45. So the marriage allowance may reach £270.

Note also that one-tenth of the wife's earned income has already come off under the ordinary earned income relief stated above.

The marriage allowance comes off before the taxable income is reached. There is no limit of income beyond which this is not allowed.

This marriage allowance supersedes the old allowance for a wife, which as a separate relief has ceased as for any year after April 1920.

Children.—The allowance is £36 for a first or only child and £27 for each other child. 'Child' includes step-child, adopted child, and (if the parents have since married) illegitimate child. The children must be in life on 6th April of the year of assessment and then under sixteen years of age, unless they are full-time scholars or students, when there is no age-limit. There is no income-limit in the case of the tax-payer, but no child can count who has a separate income over £40 other than from any scholarship. These children allowances come off before the taxable income is reached.

'Housekeepers.'—This word is really not very applicable; 'nurse' or 'guardian' would be more accurate. The allowance is £45. There is no limit of income as regards either the tax-payer or the housekeeper. There are three different cases:

1. *Widowers.* The allowance is given when the tax-payer has residing with him a female relative of his own or of his late wife (or, if none available, any other female) to take charge of any child for whom he is entitled to an allowance as stated above.

2. *Widows* are in exactly the same position, except that the housekeeper may be a female relative of her own or of her late husband, 'whom failing,' any other female.

3. *Unmarried Persons.* This really applies when a son or daughter has had to take up the duties of head of the house. The allowance is then obtained in respect of the mother or other female relative residing with and maintained by the tax-payer to take charge of any brother or sister for whom he (or she) is entitled to an allowance as an 'adopted child.'

In none of these cases is there any income-limit. The allowances come off before the taxable income is reached.

Dependent Relatives.—The allowance is £25 for each dependent relative of his own or of his wife maintained by the tax-payer. The rule is that the relative must be incapacitated from self-maintenance by old age or infirmity, but there is an exception in the case of the mother or mother-in-law, who need be neither old nor infirm. The allowance is not confined to married men, but is available also to bachelors, widowers, spinsters, and widows. Relative is very widely construed. Of course, children are relatives, and if there is incapacity the result is that when the children allowance is lost by the age-limit of sixteen, this lower allowance begins. If two or more tax-payers contribute, the £25 allowance is split up amongst them according to their shares of help.

Limits.	{	Tax-payer's income . . .	No limit.
		Dependant's income . . .	£50.
		Number of dependants . . .	No limit.

These allowances come off before the taxable income is reached.

Rate Relief.—When the above allowances have been deducted, you have the ‘taxable income,’ if any, and it is then that the rate relief arises. The form it takes is that the first £225 of the taxable income, or the whole if it does not exceed £225, is taxed at one-half of the standard rate of tax, and the balance, if any, at the full standard rate. At present the full is 6s., and the half is 3s. But the tax so brought out is again subject to reduction by the allowance for life assurance and superannuation payments.

Life Assurance.—This allowance means that sums paid in premiums for assurance on the life of the tax-payer or his wife, or for superannuation benefits, are allowed free of tax. There are many restrictions and conditions, but most of these do not often come into force, and it is probably sufficient here to say that the total sums thus set free from tax in one year are not allowed to exceed one-sixth of the tax-payer’s income for that year, and that the allowance is calculated at 3s. per £ of the premiums in all cases where the total income does not exceed £1000.

You must claim the deductions and abatements on all heads. Be sure that you get credit for them. Fill up the Inspector’s form (see pp. 257–260) with brief particulars of—

(1) Your (and your wife’s) income, if any, besides the wages.

(2) Deductions under paragraphs 4 and 12 of the official memorandum—pp. 104, 105 above.

(3) Particulars of the facts showing your right to any of the above family allowances.

(4) What you pay for assurance on your own or your wife’s life, and contributions to superannuation funds and Friendly Societies.

House or Taxed Income.—If you have paid any other tax, say, on the annual value of your house, or on any investment made by your wife, you may be entitled to part or full repayment. That is a separate matter which you

must not overlook. Consult the Inspector of Taxes, and he will guide you aright, and see that you suffer no injustice.

ILLUSTRATION NO. 1.

Wages	£164 0
Total of deductions for tools, &c., boots, clothes, travelling, and board under the paragraphs above mentioned, assuming the circumstances to be such as to justify these deductions	14 0
The income is thus brought down to	£150 0
Deduct earned income relief, one-tenth	15 0
	£135 0
Personal allowance (unmarried)	135 0
Taxable income, and tax	nil

ILLUSTRATION NO. 2.

Wages	£250 0
Deduction for tools, &c.	10 0
	£240 0
Deduct earned income relief	24 0
	£216 0
Personal allowance (unmarried)	£135
Mother maintained	25 160 0
Taxable income	£56 0
Tax at 3s.	£8 8
Less life assurance allowance, 3s. per £ on £3, superannuation part of Trade Union contri- bution	0 9
Net tax liability	£7 19

ILLUSTRATION NO. 3.

Wages	£310 0
Tools, &c.	10 0
	£300 0
Deduct earned income relief	30 0
	£270 0
Personal allowance (unmarried)	£135
Mother as housekeeper	45
Two younger brothers or sisters maintained (‘adopted’)	63 243 0
Taxable income	£27 0
Tax at 3s.	£4 1
Less life assurance as in No. 2	0 9
Net tax liability	£3 12

ILLUSTRATION No. 4.

Wages	£475 0
Tools, &c.	15 0
	<u>£460 0</u>
Deduct earned income relief	46 0
	<u>£414 0</u>
Personal allowance (unmarried)	135 0
	<u>£279 0</u>
Taxable income	
Tax, £225 at 3s.	£33 15
" 54 at 6s.	16 4
£279	<u>£49 19</u>
Less life assurance allowance as in No. 2, say	0 9
Net tax liability	<u>£49 10</u>

ILLUSTRATION No. 5.

Wages	£450 0
Tools, &c.	5 0
	<u>£445 0</u>
Deduct earned income relief	44 10
	<u>£400 10</u>
Marriage allowance	£225
Four children	117 342 0
	<u>£58 10</u>
Taxable income	
Tax at 3s., less 3s. per £ on any life assurance payments.	

ILLUSTRATION No. 6.

Wages	£350 0
Wife's earnings	60 0
	<u>£410 0</u>
Deduct earned income relief, one-tenth of <i>both</i> sums	41 0
	<u>£369 0</u>
Marriage allowance	£225
Add nine-tenths of wife's earnings, £54, but the highest allowed is	45
	<u>£270</u>
Wife's mother maintained	25 295 0
	<u>£74 0</u>
Taxable income	
Tax at 3s., less 3s. per £ on any life assurance payment.	

For forms of Quarterly Return, see pp. 257–260. The returns and assessments (pp. 258–261) are quarterly, but the position should be reviewed annually in April for the

preceding twelve months, and the above illustrations may assist. The instructions to the tax officials are that if tax has been paid for the first, second, and third quarters of the tax year, and owing to unemployment or lower wages in the fourth quarter the result, over the whole year, is that there has been an overpayment, the Inland Revenue authorities will themselves commence repayment to the wage-earner without the necessity of a claim for repayment. But mistakes occur, and it is the tax-payer's right and duty to help in looking after his own interests.

CHAPTER 12.

EXEMPTION CLAIMS.

WE dismiss from consideration those parties who are not resident in the United Kingdom, and we confine ourselves to the ordinary case of a person who is regularly resident here. The question is—Under what conditions does such a person enjoy exemption?

Exemption-Limit.—The present income-tax regulations do not in terms lay down any exemption-limit as distinct from tax allowances. But it is convenient to adhere to the old term ‘exemption,’ by which we mean the amount of income which may be enjoyed without creating liability for any income-tax, although the person in question may not be entitled to any of the particular allowances, such as those for children, dependent relatives, and life assurance.

Four of the new regulations are here of importance. These are:

1. *Earned Income Relief.*—Before being brought into the taxation account earned income is to be reduced by one-tenth (or 10 per cent.), but the deduction is never to exceed £200.

2. *Marriage Allowance.*—Married couples living together are entitled to £225 of income free of tax. The allowance is not lost in cases of compulsory living apart, as, for instance, when one of the spouses is in an asylum, or abroad for health or business reasons. It is obtained in the first year of marriage and in the last year, though these will both probably be parts only of tax years.

3. *Personal Allowance.*—All other people are entitled to £135 of income free of tax. This is obtained by a wife in

the first year of her marriage, and to the full amount of £135 for the part of the tax year prior to the date of marriage; and the husband has also the marriage allowance, £225, for the same year. A widow has the £135 allowance for the part of the tax year after her husband's death, in addition to the husband having received the marriage allowance for the same tax year.

Note regarding these marriage and personal allowances: (a) they apply whether the income is earned or from investments; (b) they are in addition to the earned income relief; and (c) there is no income-limit.

4. *Wife's Earned Income Relief*.—If the income of a married couple includes any earned income of the wife, the marriage allowance of £225 is increased by nine-tenths of the wife's earned income; but the increase is not to exceed £45.

Now from these new regulations it results that the exemption-limit varies as follows:

	Married couples living together.	All others.
1. If income all earned .	£250	£150
2. If income all investment	£225	£135
3. If partly both . . .	£225 plus one-tenth of the earned income, but less than £250.	£135 plus one-tenth of the earned income, but less than £150.
4. If wife has an earned income:	Add £50 to what would otherwise be the exemption - limit, but not exceeding in all £300.	

Income All Earned.—In this case the exemption figures above stated are almost self-evident. The income, being all earned, is all entitled to the earned income relief. That brings £250 down to £225, which is just the amount of the free marriage allowance; and in like manner it brings £150 down to £135, which is just the amount of the unmarried personal allowance.

Income All Investment.—The exemption-limits here are self-evident, for they are just the marriage and personal allowances.

Both Earned and Investment Income.—Take first the case of a married couple. Suppose the position is:

Husband's salary	£200
Wife's investment income	45
	<hr/> £245

Deduct the earned income relief of 10
per cent. of the £200 20

This brings it down to £225
which is allowed free to every married
couple; therefore exemption.

But if we make the wife's investment
income £50, then the total is £250
Deducting the earned income relief 20
leaves £230
which, after deducting the free
allowance 225
brings out a taxable balance of £5

In the first instance the income of £245 was just the £225 plus £20, being one-tenth of the earned income. In the second instance the income was £5 over that formula.

Take a third illustration from the case of an unmarried person, and assume the figures thus:

Salary	£149 0
Savings-bank interest	1 0
	<hr/> £150 0
Deduct earned income relief	14 18
	<hr/> £135 2
The free allowance in this case is	135 0
Which leaves taxable the small sum of	<hr/> £0 2

This is a strong illustration of the rule stated above, that, when there are both kinds of income, the exemption figure can never reach to £150 in the case of an unmarried person, or to £250 in the case of a married couple, though it may come exceedingly near to these amounts.

Wife's Earned Income.—Take the case of the income standing thus:

Husband's earnings	£250
Wife's earnings	50
	<hr/> £300
Deduct the earned income relief	30
Against this remainder of	<hr/> £270

we have—

1. Ordinary marriage allowance £225
2. The maximum relief for wife's
earned income, being nine-
tenths of £50 45

£270

This illustration proves that the wife's earned income relief may raise the household exemption-limit to £300 without the aid of any of the allowances for children, &c. But the only case in which that result can be reached is when both the following conditions concur: (1) total income all earned; and (2) the wife making £50 or more. It is worth while to test this by further illustrations.

Husband's salary	£200
Wife's earnings	50
Her investment income	50
	<u>£300</u>
Deduct earned income relief, 10 per cent. of £250	25
	<u>£275</u>
Marriage allowance	£225
Wife's earned income relief	45
	<u>270</u>
Leaves taxable	£5

This results because, though the income does not exceed £300, and the wife has earned £50, the income is not wholly earned.

Again—

Husband's salary	£260
Wife's earnings	40
	<u>£300</u>
Deduct earned income relief	30
	<u>£270</u>
Marriage allowance	£225
Wife's earned income relief, nine-tenths of £40	36
	<u>261</u>
Leaves taxable	£9

This results because, though the income does not exceed £300, and is all earned, the wife has earned less than £50.

Again—

Husband's salary	£200
Wife's salary	100
	<u>£300</u>
Deduct earned income relief	30
	<u>£270</u>

Marriage allowance . . .	£225	
Wife's earned income relief:		
nine-tenths of £100 would		
be £90, but the maximum		
allowable is . . .	45	£270

No tax payable. The income is wholly earned, and the wife has made £50 and more. The same result would follow if the whole £300 were earned by the wife.

The new rule says nothing about the wife's earned income being made in some employment separate from her husband's. This is in marked contrast to the wording of the old rule, and it would therefore appear that this relief in respect of the wife's earned income will apply although she is employed in his business.

Deductions.—When we speak of the exemption-limits of income, we mean income ascertained according to income-tax rules—that is, income after allowing for (1) the necessary expenses of earning it; and (2) legal burdens on it.

Allowances Cancelling Liability.—It can hardly be wrong to say that a person who legally is liable for no income-tax is exempt from the tax. Now this may happen in the case of one who yet has a fair-sized medium income. The allowances are numerous and substantial, and the result of these in combination sometimes is to enable people, in what may be described as comfortable circumstances, to walk free of tax. Thus, a man holds an official appointment, with a good residence rent-free and a salary of £550; has a wife; also six children under sixteen, or whole-time pupils or students, for whom, under the will of their maternal grandfather, there are provided allowances of £40 a year each; and maintains two dependent relatives; and pays life premiums, £50. There thus comes into the house £790 a year; but the only 'income' is the £550, and against it there are the following:

Earned income relief	£55
Marriage allowance	225
Children allowances (one at £36 and five at £27)	171
Two dependent relatives	50
Life premiums	50
These amount in all to	£551

which exceeds the 'income,' and so no tax is payable.

A much simpler instance is that of a widow with an investment income of £250 and four children eligible for the children allowance. Her personal allowance is £135, and the children allowance is £117—together £252; and so no tax is payable.

The Claim is simple, for you ask back all you have paid, or that has been paid on your behalf. The only exception is that you deduct what you have already yourself taken off some one else on paying ground rent, feu-duty, or mortgage or bond interest. This deduction is at the *highest* rate. When you made the payments you took off tax at that rate, and you must now give the Government the benefit of it at the same rate. A very little thought will satisfy you that this leaves you neither better nor worse than if there had been no income-tax at all.

CHAPTER 13.

RATE RELIEF.

THE new regulation on the subject of graduation rate relief is:

The rate at which the first £225 of the taxable income of an individual shall be charged to income-tax shall be half the standard rate of tax.

In dealing with this we shall throughout take the present standard rate of 6s. What the rule comes to, therefore, is:

1. If the taxable income is £225 or less, 3s. is the only rate.

2. If the taxable income exceeds £225, the rates are—3s. on £225 and 6s. on the balance.

3. But in such cases the amount of tax actually payable may be reduced by the life assurance allowance as referred to below, and more fully shown in Chap. 21.

A little confusion is apt to be introduced by the fact that the limit of this rate relief is the same as the marriage allowance, both being £225. But that must be viewed as simply a coincidence. The two are totally distinct, the one from the other.

Taxable Income.—It is by no means obvious what is the taxable income. We shall state the rules and illustrate them. The rules are:

From what may be called the gross income deduct—

1. All permissible expenses of earning it.
2. All legal burdens on it.
3. The earned income relief.
4. The personal or marriage allowance.
5. All family allowances to which the tax-payer is entitled, namely—(1) 'housekeeper,' (2) children, (3)

dependent relatives; but not life assurance premiums, though tax relief may be claimable in respect of them.

The sum which is brought out after all these deductions is the taxable income.

ILLUSTRATION No. 1.

A clergyman who receives his official emoluments under deduction of tax without allowance for certain necessary expenses. He has a wife, three children for allowances, and one dependent relative. Life premiums, £40.

Emoluments	£500	0
Investment income from property	200	0
	<u>£700</u>	0
Expenses of earning the official income	50	0
	<u>£650</u>	0
Legal burdens: Ground rent	£10	
Mortgage interest	50	60
		<u>£590</u>
Earned income relief—one-tenth of £450 (£500 less £50).	45	0
		<u>£545</u>
Marriage allowance	225	0
		<u>£320</u>
Family allowances—three children (£36, £27, £27)	90	0
		<u>£230</u>
Taxable Income	£230	0
Tax, 3s. on £225	£33	15
6s. on <u>5</u>	1	10
	<u>£35</u>	5
Life assurance allowance—3s. on £40	6	0
		<u>£29</u>
Tax liability	£29	5

in addition to paying over to the Exchequer the £18 of tax which he deducted from the ground burdens, being 6s. on £60.

ILLUSTRATION No. 2.

A widow with four young children and an investment income of £475

We assume she has no deductible expenses, and no ground burdens; and she can have no earned income relief. But deduct—

Personal allowance	£135	
Children allowance	117	252
		<u>£222</u>
Taxable Income		£222

on which her true tax liability is 3s. per £—£33, 9s.

ILLUSTRATION NO. 3.

A business man whose income from his business, ascertained on the average basis according to income-tax rules, and after deducting in the accounts all allowable expenses £2100 0

His investment income £400

His wife's investment income 500 900 0

£3000 0

Legal burdens: Ground rent £50

Mortgage interest 250 300 0

£2700 0

Earned income relief: one-tenth of £2100 is £210,

but the limit is 200 0

£2500 0

Marriage allowance 225 0

£2275 0

Assume—

Three children £90

Two dependent relatives 50 140 0

Taxable Income £2135 0

Tax, 3s. on £225 £33 15

6s. on 1910 573 0

£2135 Tax liability £606 15

plus paying over to the Exchequer the tax at 6s. which he deducted on paying the ground burdens, and *minus* any life assurance allowance.

No Income-Limit—Maximum Relief, £33, 15s.—This rate relief is claimable no matter how large the total income is. When the taxable income amounts to £225 or over, the relief is always the same sum, £33, 15s., which is 3s. on £225; but, of course, the larger the income the less is the effect of the relief in reducing the rate of tax per £ of total income.

CHAPTER 14.

ADJUSTMENT CLAIMS.

IN this chapter we deal with ordinary claims when the claimant is entitled, not to total repayment, but to such a refund as shall adjust the tax actually borne by him to his true liability figure. That such claims cannot always be avoided is clear from what has been stated in previous chapters. The most obvious case is that of a tax-payer with an income of, say, £1200 entirely derived from investments, the income of all of which is taxed at the source at the standard 6s. rate. No more need be said to show that there is in that way a large overpayment beyond the tax-payer's true liability, for, without knowing anything of his family circumstances, it is plain that he must be entitled to (1) either the personal allowance of £135, or the marriage allowance of £225; and (2) rate relief on £225. Further, it may be that he is entitled to (3) various family allowances and (4) a life assurance allowance.

Such a case as we have above figured is a very good one for showing how the thing works, and how much is involved. We shall further assume that the tax-payer is a married man whose wife is living, that he has four children who count for the children allowance, that he maintains one dependent relative, and pays £100 a year for life assurance. The first problem is—find his 'taxable income.'

Total income	.	.	.	.	.	£1200	0
Marriage allowance	.					£225	
Four children (one at £36							
and three at £27)	.					117	
Dependent relative	.					25	367 0
Taxable income	.	.	.	.	.		<u>£833 0</u>

Tax, 3s. on £225	£33 15
" 6s. on 608	182 8
<u>£833</u>	<u>£216 3</u>
Less life assurance allowance on £100 at 4s. 6d., the income being over £1000, and the policies effected before 1916	22 10
True tax liability . . .	£193 13
But 6s. was deducted at the source on the full income of £1200 . . .	360 0
Repayment claimable . .	<u>£166 7</u>

Now, just let us vary the facts to the extent of assuming that £554, 10s. of the £1200 income is in the form of war loan interest paid without deduction of tax. Then only the balance of £645, 10s. has borne the 6s. rate at the source, and that tax amounts to £193, 13s. This, it will be observed, is precisely the amount of the tax-payer's true tax liability. So, on the one hand, there will be no direct assessment on the war loan interest, and, on the other hand, there can be no repayment claim; at least if a direct assessment should be received, it will no doubt be at once withdrawn on the facts being proved to the Inspector. This is an excellent illustration of how the payment of war loan interest without deduction of tax tends to simplify matters and leads to prevention instead of cure. It is not probable that such an exact case as the above will occur in practice. If the relief obtained at the source is too large, then there will be a partial direct assessment. If, on the other hand, the relief at the source is too small, then there must be a repayment claim for the balance.

If you are liable to any direct assessment at all, whether on business profits, or war loan interest received free, or even rents of land or houses, it will usually be your own fault if you do not receive, by way of deduction from the

tax under that assessment, the reliefs and allowances to which you are entitled, at least so far as that is possible. But, of course, if the reliefs and allowances come to more than the directly assessable income, then the limit is reached, and for the balance of relief it may, as we have said, be necessary to send in a repayment claim.

A word of caution is necessary here. It sometimes happens that an assessment of, say, £200 on rents or interest is reduced by, say, £100 for specified allowances. In such cases it is not unreasonable for the tax-payer to think that that means that the authorities have allowed him all that he is entitled to. But that is not always so. We do not profess to know what the reason or explanation may be, but it sometimes does happen that if, say, the directly assessable income is £200, and the total allowances to which the individual is entitled are also £200, only £100 is allowed off, and a net assessment for £100 of income is issued. This is obviously calculated to mislead, and we know that it does so in fact.

Official Form No. 64-8.—Now, it happens that the Department has a form which exactly meets such a case. And it has the great advantage of being, for once, a form which it is the duty of the Inspector to fill up and sign and send it to the tax-payer on demand, instead of the other way about, which is the usual state of things. This form is a certificate by the Inspector to the tax-payer showing in brief detail, and with figures, (1) all the reliefs and allowances to which the tax-payer is entitled; (2) the amount of any direct assessment, and how it compares with the total of the allowances; (3) the tax on the assessment, and how that compares with the tax reliefs; (4) what amount of relief still remains due, and pointing out that it is the tax-payer's right to send in a repayment claim. This is, we think, by far the best of all the official forms we have seen, and it is a pity it is not more used. That probably is due to the fact that it is not so well known as its merits deserve

and we have great pleasure in giving it publicity. Unfortunately it applies only in cases where there is any direct assessment. When such an assessment is received, if everything is not perfectly clear to the mind of the taxpayer, and particularly if he has any doubt whether he is receiving all the allowances and reliefs to which he is entitled, he should write to the Inspector and ask him to be so good as to send a certificate on Form No. 64-8.

THE REPAYMENT CLAIM.

From what has been said, it is obvious that it is not always very easy to know whether a repayment claim is necessary or competent, and if so, how much should be claimed. The official Claim Form does not require you to give any details of how you have arrived at the sum which you claim, nor does it give any space for a statement of that kind. It does, however, ask you to state the exact sum which you claim. It is essential that that part of the form be signed, for it contains your representation that the detailed statement of your income, and of charges thereon, is 'a true account of my income from every source, whether taxed or not,' for the year or years in question. But it is not insisted on that the sum of tax which is claimed back shall be specified. You will, however, of course, make your own calculation, compare that with what is repaid to you, and, if the difference is material, ask for an explanation. The answer may aid you on the next occasion if you agree with it.

Meantime, however, we may help you by stating that you should—

1. Obtain, if necessary, repayment of tax on a sum equal to the earned income relief. There are not many instances in which that is not obtained in the assessment, but such cases do occur.

2. Obtain repayment of tax on the amount of the personal £135 or marriage allowance £225.

3. Obtain repayment of tax on any family allowances which apply to your case: (1) 'housekeeper;' (2) children; (3) dependent relatives.

4. Obtain an allowance of tax on life assurance premiums.

5. Obtain rate relief down to 3s. on £225, or on the whole 'taxable income' if less than £225.

6. Remember, you have already obtained these allowances and reliefs in whole or in part to the amount of any income on which you have paid no tax—for example, war loan or bank deposit interest, or the rent or value of any house which has been relieved from the charge just because the officials know that you are entitled to so much free.

7. Remember that you have *already* got back, at the *highest rate*, any tax which you have deducted from ground burdens or mortgage interest (see p. 37).

If all this sounds a little complicated, the illustrations on pp. 124–125 and the Claim Forms (pp. 262–271) may be found easier. For the rest, you have the consolation that, if you set down the facts fully and correctly, the calculating and accounting part of it will be done for you by the officials on your sending in your claim and certificates. You will get justice; and if the amount you receive should seem to you distinctly too small, a letter or a visit to the Inspector will probably clear it up to your satisfaction and instruction.

CHAPTER 15.

THE FOUR YEARS.

THERE are exceptions in particular cases, but the time-limit applicable to an ordinary claim for repayment of income-tax is, that it must be made 'within three years of the end of the tax year to which it relates.' Now the 'tax year' runs from 6th April of one year to 5th April of the next year. It is usual, therefore, to say that you can get back only three years' tax at a time; and the official form No. 40 is framed to cover three years only. Thus, at any time up to 5th April 1921 your claim is in good time for the year which began on 6th April 1917 and ended on 5th April 1918. The latter date is 'the end of the tax year' in question, namely, the year 1917-18. Any date up to 5th April 1921 is 'within three years' of 5th April 1918. Equally the intervening years, 1918-19 and 1919-20, can be included, and these together make three years.

But it is also true to say that when you are getting near to 5th April 1921, you may be in a position to deal, also, in the same claim with the current (but then nearly closing) tax year 1920-21, and thus it is allowable to take four years together. A little ingenuity will easily adapt Form 40. It is, however, far better not to let the matter drag on and accumulate in this way, and few people will be willing to do so when the tax is so considerable a proportion of the income.

It is hardly necessary to say that, whatever be the date of your claim, you must deal with each year separately, according not only to its own facts as regards your income, but also according to its own law. That is to say, you set down the figures for each year separately, and your rights of repayment may be very different within

the three or four years which may have to be included in one Claim Form.

That is very much so at present, seeing that the whole framework of the taxation scheme has been altered for 1920-21. The general treatment of the subject throughout this book is necessarily on the basis of the new rules. The reader may already possess the third edition, and if not, it may be possible still to procure a copy of that edition. There can be no doubt that a very considerable amount of business will still have to be done in the way of tax adjustments and repayments, going back to the tax year which ended on 5th April 1920 and probably even earlier. It is impossible in each chapter of the present edition to explain not only the actual existing rules, but also those for the previous year. They are fully set out, explained, and illustrated in the third edition; but in this chapter an attempt is made to give at least a good general indication of what the rules were in the three previous years which ended on 5th April 1918, 5th April 1919, and 5th April 1920.

1917-1918.

Graduation.

Total Income not over	Rate of Tax on the part which was		
	War Pay.	Earned (except War Pay).	Unearned.
£130	Exempt (£160)	Exempt.	Exempt.
300	9d.	2s. 3d.	3s.
500	1s. 3d.	2s. 3d.	3s.
1000	1s. 9d.	2s. 6d.	3s. 6d.
1500	2s. 3d.	3s.	4s.
2000	2s. 9d.	3s. 8d.	4s. 6d.
2500	3s. 3d.	4s. 4d.	5s.
Over 2500	3s. 6d.	5s.	5s.

Scale Abatements.

Total Income not over	Abatement.
£130	Exempt.
400	£120
600	100
700	70

In war service cases the exemption-limit was £160; and if the total income did not exceed £300, the abatement was £160.

The abatements always came off the lowest taxed income except when there was war pay, when the order was (1) ordinary earned income; (2) unearned income; (3) war pay.

Children Allowance was £25 for each child (with the same meaning as now) under sixteen years of age, but only if the total income did not exceed £700. It did not matter what separate income the child had.

Wife.

Housekeepers.

Incapacitated Dependants.

} No allowance.

Life Assurance Allowance.—The restrictions were:

1. Not more than a premium of 7 per cent. allowed on any ordinary 'death' insurance.

2. Not more than £100 a year for other benefits.

3. And in no case more, altogether, than one-sixth of the income of 1917-18 or (if larger) 1913-14.

But these reductions did not apply to war-risk extra premiums, and in that case 'single' premiums were allowed, and not merely annual premiums.

Contracts after 22nd June 1916.—Any one insuring after that date, or contracting after that date for a deferred annuity, was, so far as these arrangements were concerned, in the following position:

(1) His tax relief was not to exceed 3s. per £.

(2) He obtained no relief at all on account of payments for deferred annuities, with an exception in favour of certain superannuation or *bona fide* pension schemes.

(3) He obtained no relief on account of premiums 'during the period of deferment in respect of a policy of deferred assurance.'

Bank Interest paid by the tax-payer without deduction of tax was allowed, as a deduction, to the full extent, and as a legal right. This applied also to interest paid to stockbrokers and discount houses.

Marginal Relief.—This meant that if any additional tax burden would have been incurred by the income exceeding a certain step by a small sum, the tax-payer surrendered the small excess to the Exchequer and was otherwise taxed as though the excess had not existed. In other words, the tax was restricted to the total of (1) what it would have been if the excess income had not existed, and (2) the excess itself.

Substituted Average.—This applied to Schedule D cases taxed on the three years average. If the profits were diminished owing to direct or indirect war causes, the tax-payer was entitled to throw over the average of the preceding three years in favour of the average of the two preceding years and the year of assessment itself; but if this brought out a less sum than the profits of the year itself, then the latter had to be taken. A person serving in the war was entitled to take the figures of the actual years if reduced by war causes.

Diminished Income Relief.—If the actual income was less than the assessment by more than 10 per cent. (whether due to war or not), the tax was charged on only the actual income.

Sailors and Fishermen had the same concession as for war service.

Schedule B.—Farmers were charged on the amount of the rent, less cottages, but with the same options as now.

1918-1919.

Graduation.

Total Income not over	Rate of Tax on the part which is		
	War Pay.	Earned (except War Pay).	Unearned.
£130	Exempt (£160)	Exempt.	Exempt.
300	9d.	2s. 3d.	3s.
500	1s. 3d.	2s. 3d.	3s.
1000	1s. 9d.	3s.	3s. 9d.
1500	2s. 3d.	3s. 9d.	4s. 6d.
2000	2s. 9d.	4s. 6d.	5s. 3d.
2500	3s. 3d.	5s. 3d.	6s.
Over 2500	3s. 6d.	6s.	6s.

Scale Abatements.—In all respects as above stated for 1917-18.

Wife Allowance.—£25 if the total income did not exceed £800.

Children Allowance.—1. If the income did not exceed £800, £25 for each child, step-child, and adopted child under sixteen years of age.

2. If the income exceeded £800, but did not exceed £1000, a like abatement for each *such* child after the first two.

3. When the income did not exceed £800, the age-limit was removed in the case of incapacitated dependent children, including step-children and children who were adopted when under sixteen years of age.

Widower's Housekeeper.—A widower who had a child or children (including step-children and adopted children) under sixteen years of age, and whose income did not exceed £800, was entitled to £25 of income free in respect of any female relative of his own or of his late wife resident with him for the purpose of taking care of the child or children.

Incapacitated Dependent Relatives.—£25 for each relative of the tax-payer, or of his wife, incapacitated by old age or infirmity, and maintained by the tax-payer, provided the tax-payer's income did not exceed £800, nor the relative's income £25. Relatives include children who were 'adopted' before they were sixteen years of age.

Life Assurance.

Bank Interest.

Marginal.

Substituted Average.

Diminished Income.

Sailors and Fishermen.

} As 1917-18.

Air Service included in war service reliefs.

Schedule B.—Farmers were charged on the present basis of doubled rent, with the same options as now.

1919-1920.

Rates of Tax.

Scale Abatements.

} As 1918-19.

Wife Allowance.—£50 if the total income did not exceed £800.

Children Allowance.—£40 for the first or only child, and £25 for each other child. The age-limit of sixteen held, except in the case of full-time pupils and students, when there was no age-limit. The £800 limit on the tax-payer's income applied; but if over £800 but not over £1000, the allowance was obtained for all the children, except two, who would otherwise have been eligible.

Housekeeper Allowance.—1. *Widower.*—£50, children or no children. The housekeeper still required to be a relative of the widower or of his late wife. Income-limit, £800.

2. *Unmarried Tax-payers.*—The allowance was extended to an unmarried individual, with an income not exceeding

£800, who had living with him his (or her) mother (a widow, or living apart from her husband) or other female relative, maintained at the tax-payer's expense, for the purpose of having the charge of any brother or sister of the tax-payer, being a child in respect of whom the tax-payer was entitled to the children allowance.

Incapacitated Dependent Relatives. } As 1918-19.
Schedule B—Farmers. }

Life Assurance.

Bank, &c., Interest.

Marginal.

Substituted Average.

Diminished Income.

Sailors and Fishermen.

Air Service.

} As 1917-18.

All the Years 1917-18; 1918-19; 1919-20.—It may be observed that in the above notes regarding these three years nothing is expressly said on two very important matters—earned income relief and graduation or rate relief. Both of these are now specifically dealt with in the new rules from April 1920. And so they were in the three preceding years, but in a different manner. The relief to earned incomes as against income from investments was then given in the very obvious form of different rates of tax for the two classes of income, and graduation was effected by the scales of rates. Full details of these appear in the tables of tax rates printed above.

CHAPTER 16.

HUSBAND AND WIFE.

THE income-tax law proceeds on the view that husband and wife are one. It would in nearly every case be a pecuniary benefit to the household if they were treated as two, for then, if each had an income of £150 earned or £135 from investments, the whole £300 or £270 would go totally free of income-tax; at higher incomes each would be entitled to get off at 3s. on the first £225 (together, £450) of taxable income; and so on.

The general rule of the unity of incomes following that of hands and hearts is not negated or in any way affected by the Married Women's Property Acts, or any clauses in wills or marriage settlements or marriage contracts, however clear any or all of these may be to the effect that the wife's means shall be her own and at her own disposal.

There are, however, certain exceptions and qualifications.

I. ABSOLUTE EXCEPTION.

If the parties are living separate the rule does not apply, and each is entitled to be treated as a separate person. But it must be shown that the separation is, meantime at least, of a permanent nature. Separation may arise from, or be evidenced by, (1) judicial decree, (2) separation deed or contract, (3) informal writings, or possibly nothing but verbal agreement. Nos. 2 and 3 assume mutual agreement, but there may also be (4) desertion. In different districts the practice appears to vary as to giving the benefit of the separation from its date or from 6th April following.

II. SUBSTANTIAL QUALIFICATION.

This is the wife's earned income relief. It is fully explained in Chap. 12, in relation to the amount of the exemption-limit. But it holds good irrespective of the amount of the joint income. Nor is it now said to be necessary that the wife's employment shall be outside of her husband's business. The effect is to increase the marriage allowance by nine-tenths of the wife's earned income or £45, whichever is the less. In other words, only £50 of the wife's earned income counts for this relief. But the earned income relief is obtained on the whole of the wife's income of that nature subject to the £200 limit. Perhaps this sounds a little involved, and it may be well to illustrate the two rules in conjunction. For simplicity, we assume that there are no family allowances and no life assurance.

ILLUSTRATION NO. 1.

Husband's earned income	.	.	.	.	.	.	£400
Wife's earned income	.	.	.	.	.	.	100
Her investment income	.	.	.	.	.	.	100
							<u>£600</u>

Deduct—

1. Ordinary earned income relief, one-tenth of £500, thus including the whole of the wife's earned £100	.	.	.	.	.	.	£50
2. Ordinary marriage allowance	.	.					£225
Add wife's earned income relief, the limit of	45	270					320
Taxable income	.	.					<u>£280</u>

ILLUSTRATION NO. 2.

Husband's earned income	.	.	.	.	.	.	£2000
Wife's earned income	.	.	.	.	.	.	40
Joint investment income	.	.	.	.	.	.	460
							<u>£2500</u>

Deduct—

1. Ordinary earned income relief. One-tenth of the earned £2040 is £204, therefore reduced to the limit of	.	.	.	.	.	.	£200
2. Ordinary marriage allowance	.	.					£225
Add wife's earned income relief	.	36	261				461
Taxable income	.	.					<u>£2039</u>

ILLUSTRATION No. 3.

Husband's investment income	£2000
Wife's investment income	1000
Her earned income	<u>200</u>
	£3200

Deduct—

1. Ordinary earned income relief, one-tenth of the £200.
It happens that this is the wife's and is the only
earned income, but that does not affect this
relief £20
 2. Ordinary marriage allowance . . . £225
- | | | | |
|---|----|-----|------------|
| Add wife's earned income relief, the limit of | 45 | 270 | <u>290</u> |
| Taxable income . . . | | | £2910 |

III. FORMAL QUALIFICATION.

If either husband or wife makes application in any (and every) year before 6th July, they are separately charged with their respective proper amounts of tax. As regards the year of assessment in which the marriage takes place, the application may be made up to 5th July of the following assessment year. This applies however large the incomes may be, and of whatever nature. But there is no pecuniary gain, for the incomes are still to be treated as one for all purposes of exemption allowances and relief (and also for super-tax), and if the wife does not pay her share, it can be recovered out of the husband's property.

More particularly the rules are—

1. There is only one marriage allowance of £225; the allowances for children and dependants are unaltered; and the tax is reduced to 3s. on only one sum of £225.
2. The apportionment of the reliefs is as follows:

(1) Ordinary earned income relief.	To husband and wife in proportion to the amount of their respective earned incomes.
------------------------------------	---

- | | | |
|---|---|---|
| <p>(2) Ordinary marriage allowance of £225.</p> <p>(3) Allowance for children, other than 'adopted' children.</p> <p>(4) Rate relief; that is, reduction of tax on £225 to 3s.</p> <p>(5) Wife's earned income relief (apparently).</p> | } | <p>To husband and wife in proportion to the amounts of their respective assessable income—that is, their incomes ascertained under income-tax rules, before deduction of any allowance except the one-tenth off the earned income. Thus if the position is, husband's earned income £500, wife's investment income £450, they are equal, for the £500 is reduced to £450 by the earned income relief.</p> |
| <p>(6) Allowance for adopted children.</p> <p>(7) Allowance for dependent relatives.</p> <p>(8) Life assurance allowance.</p> | } | <p>To husband or wife, as the case may be, who maintains the child or relative.</p> <p>To the husband or wife, as the case may be, who pays the premium.</p> |

IV. NULLITY OF MARRIAGE.

On a decree of this nature being pronounced both parties would be entitled to have the joint assessment corrected to separate assessments, not only from its date, but also back to the date of the ceremony of marriage, or at least for the statutory three years if the ceremony was farther back.

V. BROKEN PERIODS.

Chap. 22 should be studied. The benefit of broken financial years may be important with reference to the dates of (1) marriage, (2) death, (3) separation, (4) re-cohabitation, (5) divorce, (6) decree of nullity.

VI. NON-ASSESSMENT ON WIFE.

There is no power to assess the wife even for the tax on her own income unless either she or her husband makes a request to that effect, as stated under No. IV. In some instances the result of this, assuming that no such request is made, is very peculiar. If the wife's income is received subject to taxation at the source, no trouble arises, for the tax is paid, and probably overpaid, before she handles the money. Then, if the income is received through trustees, no trouble arises even though the income is received without deduction of tax, for the trustees are assessable, and they are entitled and bound to pay the tax and to deduct it in settling with the beneficiary, the wife. Again, if the income is from a business carried on by the wife as sole trader or in partnership, she or the firm may be assessed. But assume that the following four things concur, namely—(1) the wife's income is from investments; (2) is received direct; (3) without deduction of tax at the source; and (4) the husband has no means. In such a case it appears that the Department has no effective remedy for recovery of the tax. They may assess the husband, but he is unable to pay. The wife is able to pay, but she cannot be assessed. The husband may be liable to imprisonment; but that step is usually not taken, because he has no legal power to compel his wife to pay the tax or to give him money with which to do so. Such cases occur in fact. An early improvement in the law is expected.

CHAPTER 17.

TRUST BENEFICIARIES.

MANY people draw part, and some the whole, of their income through trustees. In these cases the investments stand in the names of the trustees, and it is they who in the first instance, and nominally, pay or bear the tax. But, of course, they just pass on the burden to the beneficiaries in the shape of reduced income, except in those cases where some particular benefit under the trust (usually an annuity) has been bequeathed free of tax; as to which, see p. 179. In all ordinary cases, therefore, if you are a trust beneficiary, you may take it that any payments of income which you receive from that source have borne income-tax, although there may be no reference to tax in the letters or other statements you receive from the acting trustee or the trustees' solicitors. This is most clearly seen when the trustees invest money in, say, Consols, and give the Bank of England a mandate to pay the dividends direct to the life-tenant or life-renter. He or she then receives the dividends direct from the Bank, and these remittances (unless of very small amount) are under deduction of income-tax,

Charitable Trusts.—If the trust is administered for charitable purposes or objects, all the tax is reclaimable, except as regards property occupied by the charity; and even that tax is discharged in the case of hospitals, almshouses, and charity schools. But charitable trusts are special cases altogether, and the repayment claim is attended to by the trustees or on their behalf, and not by the recipients of the charity. Form No. 68. Profits of trading by charities are taxed. And when the whole, or a

share, of the residue of a trust estate is bequeathed to a charity, it has been decided that the tax immunity does not apply to income coming in between the death of the testator and the ascertainment of the amount of the residuary fund.

Trust Income.—In ordinary trusts the amount of the trust income has little or nothing to do with the existence or extent of the right to obtain relief from income-tax. Thus a small trust fund may yield not more than £135 a year, but the whole income may go beneficially to a person who is even liable for super-tax. On the other hand, it may well happen that though the income of a trust estate is very large, and is all taxed before it is received by the trustees, nevertheless all the tax falls to be repaid by the Inland Revenue. The reason is that the questions of exemption or allowances are determined by the financial position and other conditions of *each individual beneficiary*. The income may, for instance, fall to be distributed in the form of twenty-five annuities, of £100 each, to twenty-five different annuitants, each of whom has no other income, or an income not exceeding £135 after including the annuity. Now, in such a case when the gross income is £2500, and tax 6s., the trustees would bear £750 of tax by deduction at the source, receiving thus a net income of

£1750

and (omitting, for ease of statement, all reference to administration costs) each of the twenty-five annuitants would receive from the trustees an annuity of

£100

Less tax at 6s.,

30

Net payment to each annuitant,

£70

which, when multiplied by 25, exactly exhausts the income of

£1750

It is unlikely that all the beneficiaries would be entitled to total exemption. More probably some would be thus exempt, and the others entitled to various tax reliefs.

Each of the twenty-five must, in his or her statement of total income, include any shares of trust income to which he or she individually is entitled. The individual claim to repayment of a proper share of the income-tax which has been paid by the trustees is exactly the same as if the claimant had received the income direct and not through trustees, and is not affected by the amount of the whole income of the trust estate.

Charges on Trust Income.—These must be disclosed and dealt with just like charges on ordinary non-trust income (see p. 37). But this arises only when it is necessary to go into a statement of the whole trust income. That is required in the case of any one (e.g. life-tenant or liferenter) who is entitled (wholly or partly) to the whole income or to the balance of income. It is not usually necessary in the case of an annuitant.

Trust Costs and Expenses.—When the whole income is involved, we understand that to mean the gross income less legal burdens, if any, such as land-tax, ground burdens, interest, and annuities, but not administration costs and expenses, though properly charged to income.

No 'Earned' Relief.—Trustees cannot obtain for their beneficiaries the benefit of the relief earned income upon the profits of any business which they may carry on as trustees. This relates to the not very common case of trustees being allowed to carry on a business for the benefit of the trust estate—that is, of the beneficiaries. Assuming that they do carry it on and make profits, nevertheless the law is that these must be treated as investment income. But—

1. If a beneficiary is employed as manager or otherwise in connection with the business, his salary or other remuneration is a charge on the profits, and is earned income so far as he is concerned; and it makes no difference though he is also a trustee, assuming that in that case he could be legally employed on such terms.

2. If a beneficiary is so employed, his share of the profits as a beneficiary is also entitled to rank as earned income. The same holds of any beneficiary working under the trustees without any salary, which could hardly happen except in the case of a sole present beneficiary. It is believed that the official practice in these cases varies, and that the earned relief is sometimes refused; but it is thought that that is wrong. It is known that in some districts it is allowed.

Other Relief.—But there are other forms of relief which trustees are entitled, and in a proper case have a duty, to obtain—e.g. (1) land-tax (p. 48); (2) loss of rent (p. 46); (3) excess of outlay on maintenance, repairs, insurance, and management (p. 46); (4) Dominion tax (p. 165); (5) bank interest (p. 211); (6) wear and tear and obsolescence (pp. 65, 62). So far as the trustees have obtained repayment, the beneficiary will allow for that in making his claim. The statement of the trust income which he will submit with his claim will show the whole tax paid by the trustees, any repayment, and the net remainder; and it is with this last only (or his share of it) that he will deal in his claim.

Tax-Free Trust Income.—This may mean different kinds of things.

1. *Dividends 'free of tax.'*—This is fully explained in Chap. 19. Trust cases do not differ from ordinary cases. Tax has been borne, and the full figures should be entered.

2. *Four per Cent. Tax-Compounded War Loans.*—If this is one of the trust investments, it is rather serious for beneficiaries who are entitled to exemption or allowances, for these rights are not recognised in the case of the dividends on these issues. See p. 178.

3. *Direct Assessment.*—We refer to those items of trust income which are either received untaxed, such as bank interest, or are assessed through tenants, such as houses. In a proper case there is no reason why the remedy of preven-

tion should not be applied. A proper case is when the beneficiaries or the sole beneficiary are entitled to exemption. It can then be arranged between the trustees and the Inland Revenue that the assessments shall not be imposed. If the beneficiary is entitled only to part relief, some of the properties may be released from assessment. These are sensible arrangements, which save trouble to all parties—the officials, the trustees, and the beneficiaries. The arrangement will hold till circumstances change.

The beneficiaries of a trust estate may be (1) legatees; (2) annuitants; (3) life-tenants or liferenters; (4) discretionary beneficiaries of income; (5) persons absolutely entitled.

Legatees.—If an ordinary legatee of a sum of money receives along with it so much interest for delay in payment, the interest will probably be paid under deduction of tax at the 'normal' rate. This tax will be an item in the legatee's claim for repayment, and therefore a certificate of deduction ought to be obtained from the trustees.

Annuitants.—As to annuities 'free of tax,' see p. 179. Such an annuity must go into the annuitant's statement of income at the nominal amount—that is, the amount actually received—and no income-tax can be entered opposite to it as having been paid by the annuitant.

In the case of an ordinary annuity received under deduction of tax, the annuity will go into the income statement at its gross amount, and opposite it goes the tax deducted. If the annuitant is entitled to exemption, the whole tax is repaid.

It may happen that the trust income is insufficient to pay the annuity in full. If capital is not liable, then there is short payment; the annuitant becomes, in effect, a life-tenant or liferenter; and reference is made to that case treated below. If, on the other hand, the capital of the trust estate can be, and is, resorted to for payment of the annuity in full, tax will still be properly payable on

the whole annuity, and the annuitant's position as regards repayment is the same as if the annuity had been paid wholly out of income. So far as the annuity is paid from capital, the tax deducted by the trustees is a debt due by them to the Crown.

Life-Tenants or Liferenters.—This is the ordinary trust beneficiary case, and it sometimes causes a good deal of trouble. Assuming a sole life-tenant, it is just the same in principle as if he owned the trust estate. There are required (1) a statement of the trust income, and charges on it, and tax paid on it, certified by one of the trustees or their solicitor or accountant; (2) a certificate by one of the trustees, or their solicitor, that the claimant is beneficially entitled to the income; perhaps (3) receipts for any tax paid by the trustees direct or through tenants; and (4) certificates by the various companies, banks, and persons of deduction of tax when they paid the income to the trustees. But very often Nos. 3 and 4 are dispensed with; and as to Nos. 1 and 2, both are combined in the special official form No. 40-2. The income will be added up, and the total of the charges, if any, deducted from it; the difference is the beneficiary's income from the trust. The charges will include any annuities. The tax paid will also be added up, and there will be deducted from it the total of the tax deducted on payment of the charges; the difference is the tax which the life-tenant has suffered on his trust income. If the claimant is not sole life-tenant or liferenter, the same statement of the trust income, charges, and tax will serve for the others also, and each will carry into his own individual Claim Form only his proper share of the trust income and tax.

Discretionary Beneficiaries of Income.—These are usually minors, and reference is made to p. 190.

Persons Absolutely Entitled.—In addition to the case mentioned in the next paragraph two other cases may be

mentioned, namely—(1) Sometimes it happens that the close of a trust administration is delayed, even for some years, by disputes, or absence of parties, or difficulty of realisation. In these cases, if the right to the income, or to a share of it, is certain, the beneficiary ought to get back the tax in whole or in part if he is entitled to relief, and this even though the income has not actually been paid over to him. (2) On the final account and distribution it will almost certainly be found that the final payment includes some income on which the trustees have paid tax. This may not be much, but it ought not to be overlooked.

Non-Resident Beneficiaries.—In the following cases income-tax is not chargeable:

1. When, under a British trust, there is an investment in the securities of a foreign state or of a British possession, the income from which is payable in this country, and a beneficiary not resident in the United Kingdom is absolutely entitled to the capital.

2. When, though the trust is British, the beneficiary is not resident in the United Kingdom, and the income accrues abroad and never enters this country.

Broken Periods (Chap. 22).—There is reason to think that a good deal of tax is lost at the beginning, and at the close, of trust administrations by neglecting to refer to the important factor of broken financial years. Thus, a man with a net assured income of £1200 from house property dies on 6th September, and leaves (through trustees) his estate to his two grown-up daughters for life. The essential thing to keep in view is that in the year of the death and succession the father had an income of only £500 (five months at £100 a month), and that in the same year each daughter has an income of only £350 (seven months at £50 a month). The tax liabilities of all three must be adjusted accordingly, and it may be necessary for the father's executors to make a claim for

repayment of part of the tax which he had paid in his lifetime.

Probate.—This last case reminds one of the importance of including the right to obtain repayment of income-tax in the accounts filed for probate, or in Scotland in the inventory on which the executors' confirmation proceeds.

CHAPTER 18.

HOME, DOMINIONS, AND FOREIGN COUNTRIES.

THE subjects dealt with in this chapter have now acquired a greatly increased importance. That is partly due to the high rates of tax, and to the general imposition of income-taxes all over the world, both within and beyond the bounds of the British Empire. But just at the present time it is specially due to two changes in the rules of United Kingdom income-tax, introduced in the Finance Act of 1920. These relate to two matters which, in a sense, are really entirely distinct, but which yet may have a connection in practice. They are (1) an extension of the remedy for double (or multiple) taxation within the Empire; and (2) a general recognition of the right of British subjects, wherever resident, to something approaching the same reliefs and allowances as if they were resident in the United Kingdom. These two changes are very welcome. More has been heard of the double Empire taxation, and it bulks in the public mind more largely than the other grievance. But the other also has been very serious when, with tax at 6s. per £, a British colonist in a British colony, owning a small house in this country, was taxed on its annual value at the full rate of 6s. and could obtain no relief, no matter how small his total income might be.

Before going further, it is desirable to define what is covered geographically by each of the words at the head of this chapter.

Home means the United Kingdom, but does not include the Isle of Man or the Channel Islands.

Dominions are, broadly, the British Empire outside of the United Kingdom. More particularly the word includes all

the self-governing Dominions, India, and all other possessions, all Crown colonies, all British Protectorates, and all countries in respect of which Britain holds an administrative mandate.

Foreign Countries are—all the world except the United Kingdom and the Dominions, as above explained.

Differing from most of the Dominion income-tax codes, the root idea of United Kingdom income-tax is to tax—

1. All income and profits arising in the U.K., whether the person entitled be a British subject or not, or domiciled in the U.K. or not, or resident in the U.K. or not; and

2. All income and profits, *wherever made*, if the person entitled ordinarily resides in the U.K., whether he be a British subject or not, or domiciled in the U.K. or not.

These are very far-reaching rules, and this chapter is largely occupied with various qualifications and exceptions.

United Kingdom Income or Not.—By U.K. income we mean income arising in the United Kingdom from property, investments, or business there. Very difficult positions arise on the question of control in the case of companies' and other trading. Into these questions it is impossible to enter in a book like this. But it will, of course, be understood that in the case of dividends from a company domiciled in the United Kingdom, the income is U.K. income though the company's trading or business may be locally situated abroad; as, for instance, a London company running a railway in South America. If that railway were run by an American or a French company, the dividends would be foreign income; and if by a Canadian company, the dividends would be Dominion income. On the other hand, if the Canadian, American, or French company (not merely a partnership) carried on any business in the United Kingdom, then, while the company would have to pay U.K. income-tax, the dividends would be Dominion or foreign income to U.K. shareholders.

There is provision for treating as U.K. income what may have been made to bear the contrary appearance in order to evade the tax. Thus a foreigner may intend to carry on trade here, and he may expect large profits, but he may think that he will escape taxation if he remains at his home and does his U.K. trading in the guise of sales to a resident here on such terms that the latter can make practically nothing but a bare living, the real profit going to the foreigner. In these circumstances, if the foreign control be established, the foreigner, as the true trader here, may be reached by assessment through the resident as his agent, but only to the extent of what would be a reasonable profit on the trading so far as carried on in the United Kingdom.

Residence.—Very difficult questions arise as to whether a person is or is not residing in the United Kingdom. These are questions on which in actual cases judges differ, and all that is possible here is to indicate some leading rules. Thus, nationality has nothing to do with it; whether a man is an Englishman or a Frenchman is of no importance. Nor has allegiance; it is equally immaterial whether a man is a British subject or a citizen of the United States. Nor has domicile; English law may regulate the succession to a man's estate if he die intestate, and yet he may not be liable to U.K. income-tax. But in order to prevent misunderstanding, it seems proper to say that the true way of looking at it really is that, in the case of non-U.K. income, neither nationality, nor allegiance, nor domicile will create liability without residence, and that none of them, nor all of them together, have any direct bearing on the question of fact as to residence or no residence in the United Kingdom; but yet that they are not wholly unimportant in tax matters, for, as we shall see, the absence of a domicile in the United Kingdom, or the possession of British citizenship, may in certain cases (pp. 156, 161) operate to reduce or avoid liability.

In the case of non-U.K. income the test is whether the individual is 'ordinarily resident' in the United Kingdom; and there again what is meant is, not whether the individual either owns or rents a house in the U.K., but whether he is ordinarily resident here in the year of assessment. He may own or rent a house or houses here for the whole year, and yet be held not to be ordinarily resident here; and, *per contra*, without these things at all he may be held to be resident here. The test is not having a residence in the sense of a building; for that matter he might be living in hotels, or even in a yacht, which has indeed been unsuccessfully tried.

The problem is not made simpler by the courts having laid down that a man may legally be residing in two different countries in the same year and at the same time, and, indeed, that he may be legally residing here in a particular assessment year, though he himself is never physically in this country from beginning to end of that year. That last result might be reached where a man was professionally engaged abroad, but had an establishment maintained in this country for his wife and family. In income-tax matters there is no such thing known as a man's principal or dominant residence; he may spend far more of his time in one country than in another, but legally he may be ordinarily resident in both, and universally liable in both to income-tax on his whole income, though some of the other rules which are mentioned below now tend to mitigate the effects of this to some extent. Thus, take an American citizen whose real home and whose business are in New York, but who leases a deer forest and shooting lodge in Scotland, and goes to Scotland for a couple of months each autumn, that being the limit of his physical presence in the United Kingdom. He is held to be resident here, and liable to U.K. income-tax accordingly. And a case like that brings up another important rule—namely, that it is of no moment

that the income is all made abroad and ceases to accrue during any periods during which the person is in this country.

Six Months' Residence.—Then there is another rule which might lead one to think that liability is escaped by not being in this country for six months in any one tax year. But the above case about the American and the shooting lodge in Scotland shows there must be something wrong there. What the rule says is that, so far as Dominions and foreign securities and possessions are concerned, liability is not incurred by being in this country for a temporary purpose, and not with the view of establishing a residence, provided the stay here, whether continuous or not, does not amount to six months in the tax year in question. But in a case like the American's, it is held that he is legally resident here all the year; so the six months rule has no application. What that rule really means is that, even though the person is in this country for merely casual or passing purposes, still if, all put together, he is here in the tax year for six months, then he is liable. This seems to suggest that he might be here for practically a complete and continuous year without liability for U.K. tax on Dominion and foreign income, if he skilfully applies the 'broken period.' Thus, arriving on 8th October of one year, he might leave on 4th October of the following year. But that is not to be relied on, for the question would be whether the purpose of his presence here had been really temporary in the sense of casual, and on such facts it is extremely probable that the answer would be in the negative.

With these general explanations, it will probably be found that the application of the rules will be more easily explained and appreciated if the treatment be in separate divisions or sections; and if that entails some degree of repetition, perhaps that is no objection.

I. Residents in the United Kingdom.—Income from Dominions or Foreign Securities.

‘Securities’ means mortgages, loans, debentures, and investments of that kind, but not shares and stocks. Deduction is allowed of (1) such Dominions or foreign charges as would be allowed in the case of U.K. income; (2) income-tax in any foreign country, but not Dominions tax in any case where Dominions tax relief (p. 165) is obtained; (3) any annuity or other annual payment to any person not resident in the United Kingdom.

The ordinary basis of assessment is the actual amount of the income of the year of assessment, whether received in the U.K. or not. But the charge is restricted to the sums brought home to the U.K. in the following cases:

1. Persons not domiciled in the U.K., though resident here.
2. British subjects not ordinarily resident in the U.K.

II. Residents in the United Kingdom.—Income from Dominions or Foreign Stocks, Shares, and Rents (‘Possessions’).

Deductions are allowed as in the preceding case. The ordinary basis of assessment is the average of the three preceding years, whether brought home to the United Kingdom or not. But the charge is restricted to the average of the sums brought home to the U.K. in the three preceding years in the following cases:

1. Persons not domiciled in the U.K., though resident here.
2. British subjects not ordinarily resident in the U.K.

It will scarcely fail to be noticed that trouble necessarily arises if tax is deducted at the source in a case where the true ultimate liability is determined by an average of years. Thus, dividends of foreign companies collected through a banker in the United Kingdom will be paid less

the full standard rate of tax, and yet it may be the fact that the average rule results in no assessable income at all from such sources this year. If that happens, it will be put right on a repayment claim; but it can easily be prevented happening by having the dividends paid into a Colonial or foreign bank and drawing on the account by cheque. Then the proper average figure, if any, is returned to the Inspector of Taxes, and there is a direct assessment of the correct amount, if liability exists at all in the particular year.

III. Residents in the United Kingdom.—Income from other Dominions and Foreign ‘Possessions.’

This refers to income from ‘possessions’ other than stocks, shares, and rents; as, for instance, rights under Dominions and foreign trusts, and shares of profits of partnerships not controlled from this country, except so far as the trading is done here. The basis of assessment is the average of the sums brought home to the U.K. in the three preceding years. It is far from clear whether immunity could be secured in this way by keeping the money out of the U.K., in the case of a sole trader resident in this country, on the plea that the business was not controlled from here, but by managers abroad. That, however, probably would prevail in the case of a professional income dependent on personal effort, and earned only when the individual is abroad.

At least in the case of ‘possessions,’ the words ‘received in the U.K.’ have a wide meaning. It need not be cash receipts; it may be property imported, or money or value received on credit or on account of expected remittances or imports. But if the income is invested abroad, the mere custody here of the certificates for the investments is not equivalent to receiving the income itself in the U.K.

In regard to these ‘possessions’ cases, there are three

very important questions which can be little more than mentioned.

1. What is to happen in the first year of such income being received, or brought home, as the case may be, or the first year after an interval of three years? In these cases, the first year would yield no assessable income at all on a literal average of the three preceding years. The official view is that, as in the case of a new business, the actual income of the year (or the amount brought home, as the case may be) is to be taken.

2. What is to happen when such income ceases, or when an interval of three years occurs? Here an average would give an assessable figure in each of the next three years. But if the analogy of a business is to hold, it would appear that there could be no assessment.

3. What is to happen when A sells such an income to B, or dies and leaves it as a legacy to B? If the business analogy is to hold, there will be successions, but very troublesome complications will arise on that view.

It is not known that there is any definite authority on these questions; but, at least as to No. 2, it may now be taken as certain that in any year in which there is no such income there can be no assessment.

IV. Non-Residents.—Non-Liability.

This refers to persons not resident in the United Kingdom; it matters not whether they are resident in the British Empire or in foreign lands. Of course, there is no case in which such persons can establish *non-liability* for U.K. tax on income accruing in the United Kingdom. It may be that some of them may, by allowances, reach a point at which their liability disappears; but that is a different matter, and is dealt with on p. 162. What is at present referred to is that in the case of non-residents there are certain kinds of income which are not taxable in the United Kingdom. These are:

1. All income which never enters the U.K. ;

2. Which includes the income of U.K. trusts, administered by U.K. trustees resident in the U.K., when the income does not accrue in the U.K., and is not brought into the U.K., but is paid direct to a beneficiary resident abroad.

3. The income from the securities of any foreign state or British possession, though payable in the U.K. This obviously covers a very wide field of investments. It applies to cases where, according to the terms of issue, the income is payable in the U.K.

4. And No. 3 is extended also to certain cases of securities of that class held through U.K. trustees, resident in the U.K., and administering a U.K. trust—that is, where there is a sole beneficiary, and he or she is really absolutely entitled to capital as well as income. There are technicalities which can hardly be gone into here.

5. All Dominions and foreign income not declared to be payable in the U.K., but which the person entitled has chosen, or has allowed, to be collected by a banker or other agent in the U.K. That is treated as a mere business arrangement for convenience, and is not allowed to affect ultimate liability ; but unless a few things are noted here, misunderstanding is apt to arise. In the first place, remember we are speaking of persons who do not reside in the U.K. Why they do not reside there has nothing to do with it, so long as they do not either actually, or in the eye of the law. In the second place, they may or may not also be entitled, on other parts of their income, to the separate relief explained on p. 161 ; but that has nothing to do with this present matter of non-liability. And in the third place, most important of all, care must be taken to distinguish what is U.K. income and what is not, the chief point being that, if it is dividend or interest from a U.K. company, it is U.K. income, though the company's only operations may be the running of a railway abroad.

6. Whether No. 5 would be extended to cover trust cases

is not clear—that is to say, cases in which Dominions or foreign income is collected by U.K. trustees, brought home, and then paid out to a non-resident beneficiary.

7. Certain municipal securities, &c. }
8. Certain war issues. } See p. 167.

It is suggested that in trust cases a good deal might be done to benefit beneficiaries residing in the Dominions or abroad. Arrangements might be made which are often omitted. Even as things are, claims may be competent when not thought of. Experience shows that favourable consideration may even be given to such special cases as when, through the misreading of a will, a fund has been retained in the U.K. for some years when it ought to have been paid out to a non-resident beneficiary. The result of an innocent breach of trust like that is to create liability for U.K. tax which ought never to have arisen, and relief may perhaps be obtained.

V. Non-Residents.—Liability with, or without, Reliefs and Allowances.

This refers to persons not resident in the United Kingdom, and with reference to that part of their income which is liable to U.K. tax. It matters not whether they are resident in the British Empire or in foreign countries. But it is one thing to be liable, and quite another thing to be liable without any rights of relief or allowances. Yet for a good many years back the latter was the position of ordinary non-residents in regard to U.K. income. This meant British subjects resident in the British Dominions paying 5s. or 6s. per £ on U.K. income, though their total means might be quite small, so that if they had been in this country they would have been paying no tax at all. Exceptional cases were recognised and reliefs were given; but it was only in April 1920 that British subjects were put at the top of the 'exceptions' list, and, of course, that makes a vast difference. Now it may just be a question

whether the exceptions do not swallow up the rule, but we shall still state it in the old form. In that way of putting it—

The Ordinary Rule is that no one who is not resident in the United Kingdom is entitled to any of the following reliefs and allowances:

- | | |
|--|------------------------------|
| 1. Earned income relief. | or infirm tax-payer, |
| 2. Personal allowance. | children, or dependent |
| 3. Marriage allowance. | relatives. |
| 4. Allowances for house-keeper, attendant (daughter) on aged | 5. Rate relief. |
| | 6. Life assurance allowance. |

The rule, where it operates, thus refuses all relief on what is true income, but not on what is not income. Thus it does not exclude relief on account of (1) expenses, (2) wear and tear, (3) rents lost or abated, (4) excess maintenance of property, (5) bank, &c., interest, (6) children's maintenance under legal obligation, (7) local rates (Scotland). These all reduce income, and these reliefs are all obtainable by any non-resident. The non-resident is made to pay on the true income, not on more; but then, when the ordinary rule operates, he is made to pay the full standard rate though he may be in very humble circumstances.

But, further, the rule does not prevent the non-resident obtaining the benefit of the Dominions tax relief if his income has been taxed both in the United Kingdom and in the Dominions.

The Exceptional Cases are:

1. British subjects; but this does not include nationals of British Protectorates, as Egypt, or of countries for which Britain holds a mandate.

2. Those who are or have been in the service of the State.

3. Any widow whose husband was in the service of

the State. Up to April 1919 this was limited to cases where the widow had a pension from the State.

4. Employees abroad of missionary societies.

5. Persons in the service of native states under British Protectorate.

6. Persons who, previously resident in the U.K., can prove that their residence abroad is for health reasons; which may mean the health of the tax-payer himself, or of his wife or of a child of his.

7. Persons resident in the Isle of Man or Channel Islands.

First—to whom this applies. It applies now to all British subjects without any further qualification or condition. In all the other cases stated, it applies though the claimants are not British subjects. Nor, except in case No. 6, is it necessary that they should ever have been in the U.K. at all.

Second—what the relief is. Like most of the matters dealt with in this chapter, this is somewhat complicated. It would not be correct to say that the non-resident is to be treated as if he were resident in the U.K. No; but you are to find out his total income, including his wife's, wherever arising, and though not subject to U.K. tax. Then you are to figure out what his U.K. tax, including super-tax, would amount to if all his income were taxable in the U.K. Now, suppose it is found that the income in respect of which he is seeking relief is one-fourth (or one half or one-tenth) of his total income, then his U.K. tax may be reduced to, but not below, one-fourth (or one-half or one-tenth) of what would be his total tax liability in the U.K. if his whole income were taxable here. This may result in giving exemption, or no relief at all, or anything between these extremes. But it must be carefully understood that this 'relief' can never work so as to bring into taxation income which would otherwise not be taxable. The existence of other non-taxable income may prevent any relief being obtained on the taxable income; that is all.

ILLUSTRATION No. 1.

A British subject resident abroad, or any person of the favoured classes detailed on p. 161, has income from Consols	£100
and foreign income	100
	<u>£200</u>

On the Consols he has been taxed, by deduction at the source, £30. If he is a married man he is entitled to get all this back; for, even bringing into account his whole income of £200, the marriage allowance of £225 would result in exemption.

ILLUSTRATION No. 2.

A lady (nationality, allegiance, and domicile immaterial) residing in the Channel Islands has house property in England, yielding a taxable income of	£150
and other investment income not derived from the U.K.	150
	<u>£300</u>

She has been taxed 6s. per £ on the £150=£45. If she were resident in the United Kingdom, she would have the following allowances :

Personal	£135	
Four children	117	
Dependent relative	25	277
Leaving		<u>£23</u>

taxable at 3s. = £3, 9s.

Now, her U.K. income is one-half of her whole income, so she is liable for one-half of £3, 9s., which is £1, 14s. 6d.; and she can obtain repayment of £43, 5s. 6d., being the £45 paid less this £1, 14s. 6d.

ILLUSTRATION No. 3.

U.K. investment income, taxed at source	£500
Non-U.K. income, earned	1400
Wife's non-U.K. income, from investments	100
	<u>£2000</u>

Tax borne on the £500 at source, £150.

If the tax-payer were resident in the United Kingdom his position would be—

Earned income relief	£140	
Marriage allowance	225	
Family allowances, say	200	565
Taxable income		<u>£1435</u>
Taxed £225 at 3s.		£33 15
" 1210 " 6s.		363 0
<u>£1435</u>	Total tax	<u>£396 15</u>

Now, the U.K. income is one-fourth of the total income, so the tax is restricted to one-fourth of £396, 15s. That leaves payable £99, 3s. 9d.; and repayment can be obtained of £50, 16s. 3d., being the difference between the £150 paid and the reduced liability of £99, 3s. 9d.

ILLUSTRATION No. 4.

In No. 3, if the tax-payer had his life insured it might make a considerable difference. Thus, say, a premium of £300 (being within one-sixth of the total income, £2000) under a policy dated 1915. The total tax of £396 15
would then be reduced by 6s. per £ on £300 90 0

£306 15

One-fourth of £306, 15s. is £76, 13s. 9d., and the repayment would be £73, 6s. 3d.

ILLUSTRATION No. 5.

British 5 per cent. War Loan interest, paid free of tax because the holder is non-resident	£1000
Other U.K. investment income	100
Non-U.K. income, earned	<u>900</u>
	<u>£2000</u>

The only U.K. tax which has been paid is 6s. per £, deducted at the source, on the £100, which is £30. If the whole £2000 were brought into account the tax would stand thus, it being assumed that there are no family allowances and no life assurance.

From the £2000 deduct—

Earned income relief	£90	
Personal allowance	135	225
	<u>Taxable income</u>	<u>£1775</u>
Taxed 3s. on £225		£33 15
" 6s. " <u>1550</u>		<u>465 0</u>
	<u>£1775</u>	<u>Total tax</u>
		<u>£498 15</u>

Now, the U.K. income actually taxed (£100) is $\frac{1}{20}$ th of the total income. Therefore the actual U.K. tax should be $\frac{1}{20}$ th of £498, 15s., or £24, 18s. 9d. A repayment can be obtained of £5, 1s. 3d., being the difference between that sum and the £30 paid.

ILLUSTRATION No. 6.

U.K. investment income	£2000
Non-U.K. investment income	<u>8000</u>
	<u>£10,000</u>

The £2000 has borne tax, £600, at the source. If the whole £10,000 were brought into account the tax would be, say,	£2990
and super-tax	<u>1460</u>
	<u>£4450</u>

Now, £2000 is one-fifth of the total income. But one-fifth of this total tax is £890. That is more than the £600 already paid, and so there is no relief.

Rules.—Note the following:

1. The non-U.K. income must be brought into account before deduction of any Dominion or foreign taxes.

2. No Dominion or foreign taxes can be brought into account.

3. It matters not that allowances for children, life assurance, &c. have been obtained also for the purpose of Dominion or foreign taxes.

4. It would appear that, in the case of the life assurance allowance, the policy would require to be with a company which would pass in the case of a British resident claiming the assurance allowance; as to which, see p. 197.

5. This relief does not necessarily exclude the separate Dominions tax relief.

VI. Dominion Tax Relief.

This is the remedy, so far as contributed by the Home country, for the grievance of double income-tax within the Empire. It applies whenever the same income is taxed both in the United Kingdom and in the Dominions, as explained on p. 151. Then the relief from the British tax is the *lower* of the two following:

1. The whole of the Dominions rate; or

2. One-half of the U.K. rate.

The subject is complicated by the fact that the rates of tax taken for this purpose are not the standard rates, but something nearer to the effective rates; but waiving that in the meantime, the following figures show the idea:

U.K. Rate.	Dominions Rate.	U.K. Relief.
6s.	4s.	3s.
6s.	2s.	2s.
5s.	3s.	2s. 6d.
5s.	2s.	2s.

The ultimate object is to secure that the combined rates shall be equal to the higher of the two rates, but no more. This U.K. relief effects that where the Dominions tax does not exceed one-half of the U.K. tax, but otherwise there is a balance of redress still due, which the Dominions may or may not supply.

The Dominion income is taken before deduction of the Dominion tax, with a qualified exception in cases where the Dominion gives no relief in respect of U.K. tax.

Dominion tax includes any income-tax or super-tax levied in the Dominion which appears to the Special Commissioners to correspond to our taxes of the same name.

Both U.K. income-tax and super-tax rank for the relief. The relief has relation to the rates of those taxes for which each individual is liable. These rates are ascertained thus: (1) income-tax—compare his ‘taxable’ income, as explained on p. 123, with his tax liability before allowing for life assurance or this Dominion relief; (2) super-tax—compare his *total* income, as fixed for super-tax, with his super-tax liability. Suppose the income for income-tax purposes was last year, and is this year, £2500; the taxable income, £2000; the income-tax (before any life assurance or this relief), £566, 5s.; and super-tax, £37, 10s. The income-tax rate is 5s. 8d.; the super-tax rate, 3½d.; and the combined British rate, for this purpose, 5s. 11½d. These figures are closely approximate. The income-tax rate is obtained by dividing £566, 5s. by 2000, and the super-tax rate by dividing £37, 10s. by 2500.

The Dominion tax to be considered is that for a tax year ending with, or within, the British tax year. Thus, in claiming U.K. relief for 1920–21 in the case of income from a Dominion whose tax year ends on 30th June, the Dominion tax in question would be that for the year to 30th June 1920.

Company Cases.—The great bulk of this relief is given

through U.K. companies with Dominion income, and the dividend warrants issued to the company's shareholders usually contain a notice on the subject. Preference shareholders are entitled to share in the relief, but not in the somewhat similar relief which was given prior to April 1920. As to all classes of shareholders it may happen that, through the company in this way, they receive more relief than they individually are entitled to, and in that case the matter is put right by reduction of the rate relief due on £225 of taxable income.

This U.K. relief applies wherever the two taxes (U.K. and British Dominion) are levied, and it matters not whether the income belongs to a person resident in the United Kingdom or in the Dominion in question, or in any other part of the Empire, or in a foreign country.

VII. Special Investments.

The income of the following war loan issues is exempt from U.K. income-tax and super-tax if they are in the beneficial ownership of persons not ordinarily resident in the United Kingdom, even though domiciled there:

1. 5 per cent. War Loan (stock and bonds), 1929-47.
2. 4 per cent. War Loan (stock and bonds), 1929-42. This is in any case 'tax-compounded' whoever is the holder, so the exemption now noticed really relates to super-tax.
3. 5 per cent. Exchequer Bonds.
4. The various issues of 5 per cent. National War Bonds.
5. 4 per cent. Funding Loan (stock and bonds), 1960-90.
6. 4 per cent. Victory Bonds.
7. 5½ per cent. Exchequer Bonds, 1925.
8. Treasury Bills.
9. War Expenditure Certificates.

Then there are certain other securities the income of which is exempt from U.K. income-tax and super-tax unless they are held by persons who are domiciled in

the U.K., or by British subjects ordinarily resident in the U.K.

1. The Anglo-French dollar loan raised in the United States in 1915, to be paid off in 1920.

2. Securities issued in the United States by municipalities or local authorities in the U.K., with the sanction of the Treasury. It is understood that the only instances were the short-dated dollar bills issued by the Metropolitan Water Board in New York in 1916 and 1917, and that these have been paid off.

It will be observed that the above lists do *not* include the following :

1. $3\frac{1}{2}$ per cent. War Loan, 1925-28.

2. $4\frac{1}{2}$ per cent. War Loan, 1925-45.

3. 5-15 year Treasury Bonds. In this case the prospectus of the Post Office issue stated that income-tax will be deducted on coupons of bearer bonds held by persons ordinarily resident in the U.K. This seemed to imply that non-residents were exempt, but that is admittedly misleading.

In the case of non-residents, the income from these last three securities falls under Section V., p. 160.

VIII. The Isle of Man and the Channel Islands.

The particular taxation rules of those islands do not fall within the scope of this book any more than do those of Canada or, indeed, any foreign country. But, then, those islands are specially mentioned in the rules regulating the U.K. income-tax, and to that extent the matter calls for explanation. Besides, it is the fact that inquiries are made on the subject, and it may as well be cleared up here. The islands referred to are not parts of the United Kingdom, but they differ from any other part of the Empire in being very much nearer to the Home country, and that makes a great practical difference ; and, further, it is understood that the native taxation is specially light in those islands. But,

putting out of sight these very practical aspects, the result of the change in the law made in 1920 is that a British subject resident in the Isle of Man or in the Channel Islands stands, in relation to U.K. income-tax, in exactly the same position as if he were resident in any other part of the Empire outside the United Kingdom. Further, any one, whether British subject or not, resident in those islands stands, in relation to Dominion tax relief, in exactly the same position as if he were resident in any other part of the Empire. But it is different when we come to the case of a person resident in those islands who is not a British subject, and who has none of the special qualifications stated on pp. 161-162. Such persons resident in those islands, though not British subjects, are entitled to the qualified liability dealt with on p. 162, whereas that would be denied to them if resident in any other part of the Empire, because they are not British subjects.

It is hardly necessary to say that no fictitious residence in the Isle of Man or in the Channel Islands will serve any purpose. Indeed, even an actual residence there may be ineffectual, if the facts are such that the law would say that there was at the same time residence in the U.K. On the other hand, the mere fact of having a business in the U.K., and coming across to attend to it, does not of itself prove that the individual is residing in the U.K. or is not residing in, say, the Isle of Man; but, of course, the profits of the business would be U.K. income.

Let us, however, take first the case of a person resident in the U.K., but with some income derived from the Isle of Man or the Channel Islands. That is not U.K. income, and the rules applicable to its assessment or non-assessment, and the basis of assessment, are the same as if it was income from any other Dominion, all of which has already been fully dealt with. Also, it could be invested abroad without being brought into the U.K.

In like manner, the bringing of foreign or Dominion

income to the Isle of Man or the Channel Islands is not bringing it into the U.K.

Next we take the more important case of a person resident in the Isle of Man or in the Channel Islands, and we shall endeavour to state the rules briefly, yet sufficiently clearly.

1. His 'native' income—that is, the income accruing in the island of his residence—is not subject to U.K. taxation.

2. His foreign and Dominion income is not subject to U.K. taxation.

3. Even his U.K. income, so far as consisting of dividends and interest on the war securities detailed on p. 167, is not subject to U.K. taxation.

4. With that exception his U.K. income is subject to U.K. taxation, but with the important reliefs stated in the two following paragraphs.

5. So far as his income has borne both U.K. tax and any Dominion tax, he has the Dominion tax relief. Take a resident in the Isle of Man; if any part of his income bears U.K. tax and Manx tax, this relief applies. Also, if any part of his income bears both U.K. tax and, say, Indian tax. Indeed, if it bears all three taxes, there will apparently be a double application of the Dominion tax relief as regards the U.K. rate of tax.

6. And, as has been already stated, he can, as regards any U.K. tax, claim the limited liability explained on p. 162. It should be carefully noted that the making of such a claim has *not* the effect of subjecting to U.K. tax any part of his income which would not in any case be liable to that tax.

IX. Remittances.

This refers to remittances to the United Kingdom from places outside of it. Partly by way of recapitulation the following different cases may be set out:

1. Income from Dominion and foreign 'securities' (see

p. 156). The rule is that such income is taxable whether caused to be remitted to the U.K. or not. But, unless remitted to the tax-payer or his wife in the U.K., it is not taxable in the case of persons who are either (1) not domiciled in the United Kingdom though residing there, or (2) British subjects not ordinarily resident there. When taxable, the basis is the amount of the year—either the total income or the amount remitted home, as the case may be.

2. Income from such Dominion or foreign ‘possessions’ (p. 157), as shares of trust estates and rights in partnerships not controlled from the U.K. This is not taxable unless remitted to the U.K., even in the case of persons resident there. When taxable, three years average of sums received in the U.K.

3. Income from other Dominion and foreign possessions. The rule is that this is taxable on a three years average, whether remitted to the U.K. or not. But unless remitted to the tax-payer or his wife in the U.K., it is not taxable in the two cases stated in No. 1 above. So far as this is taxable, the basis is a three years average of sums brought home.

4. Remittances by a man from abroad to his wife in the U.K. are taxable if made from investment income, but not if made from earned income. But if the correct view on the facts of the particular case be that the husband is legally resident in the U.K., remittances have nothing to do with it, for the liability to assessment is then not so limited.

5. As the law stands, large remittances, say, from Colonial or foreign parents to sons in this country escape taxation as not being, in this country, income at all, but voluntary payments.

6. But the like immunity does not hold in the case of remittances by Colonial or foreign trustees though made under wide discretionary powers, so that they could not have been compelled to make any payment at all if they

had chosen to refuse. In such a case the money is treated here as income from Colonial or foreign possessions brought home.

X. Liability to Dominion or Foreign Tax.

This is not a book on the income-tax rules of any British Dominions or foreign countries. But it may be useful to note that when a contract is made in this country for payment here by, say, a citizen of the United States, he is not entitled to deduct American income-tax. The same rule will hold when the payment is to be made here, though out of American income, and whether the party bound to make the payment be a British subject or an American citizen. If the payments were to be made in America it might be different.

CHAPTER 19.

‘FREE OF TAX.’

THESE words are the index to important matters. They frequently occur. They are often misunderstood, and not a little income-tax has been lost by tax-payers on account of the confusion caused by them.

Different Meanings.—In order to clear the ground, it is well to mention the several different senses in which the words ‘free of tax’ may be understood.

1. *Not ‘Income.’*—The words may be used to mean that certain money or value is not regarded as income for taxation purposes—for example, the accumulated interest on (War) Savings Certificates, and rent-free houses as pertinents of office.

2. *Not Taxable Income.*—Or the words may mean that certain undoubted income which would be taxable if brought home goes tax-free because, and so long as, it is kept out of this country—for example, shares of profits of foreign or Dominion partnerships not controlled in this country, and income rights under foreign and Dominion trusts.

3. *Income Not Taxed at the Source.*—This is where real confusion is apt to arise from the careless use, or imperfect understanding, of language. For example, the dividends on the 5 per cent. War Loan and bank deposit interest are received without deduction of tax at the source; but they are subject to tax, and are taxed by direct assessment. It is very misleading to have such income described as ‘paid free of tax.’

4. The last sense of ‘free of tax’ is that there is an arrangement that A shall pay the tax on some part of B’s income, and so to that extent relieve B. In company

cases, if it relates to a preference dividend the agreement is that the preference shareholders shall be relieved by the ordinary shareholders; if it relates to an ordinary dividend, it really means that the company are distributing more than is stated, for they pay the dividend *and* the tax. In cases of testamentary annuities the agreement is that some other beneficiary, usually the residuary legatee, shall relieve the annuitant. This is the sense in which the words 'free of tax' are used in this chapter, but at best the expression is unsatisfactory.

I. DIVIDENDS.

Many companies pay dividends on ordinary shares or stock free of income-tax. This applies to both ordinary and preference shares and stock. It is somewhat like 'free' education; some one must pay, and the receiver of such a dividend should understand clearly that that part of his income, just as much as any other, bears the burden of income-tax. If, when tax is 6s., he receives a dividend of £7 'free of tax,' not only is tax truly paid, but the amount of tax is £3, not merely £2, 2s. It stands thus: the gross dividend is truly £10, subject to 6s. tax, which leaves the £7 clear or 'free of tax.' This calculation gives everything that requires to be known by the dividend-receiver in order that he may fill up his forms properly and look after his interests in regard to repayment of tax. The lessons he must take to heart are:

1. In all statements of his income this dividend must go down, not at the bare amount which he receives (£7 in the example above), but at the larger amount (£10 in that example), which, after taking off tax at the normal rate, leaves the amount actually received.

2. He has paid, or borne, tax on the dividend, and, according to the amount of his income, and other circumstances, a claim for total or partial repayment may arise.

3. In calculating the tax for this purpose, he may

wrong himself if he takes the amount actually received, and merely adds on to it tax at 6s. In the above example that would let him in for a loss of 18s. if he is entitled to exemption. Thus, 6s. per £ on £7 is £2, 2s.; but, as we have seen above, the true amount of tax to be dealt with is £3, and we have shown how that arises. It can always be reduced to a sum in simple proportion. Thus, assume dividend £10 and tax 6s., the question is: If £1 is the sum which yields, net, 14s., what is the sum which yields, net, £10? To which the answer is, £14, 5s. 8½d.; and, of course, the true tax must thus be £4, 5s. 8½d., being the difference between £14, 5s. 8½d. and £10. Many people may think it is much easier, and sufficiently accurate, to go about it in a different way, thus: The actual dividend being £10, take 6s. per £ on that, which is £3; then add 6s. per £ on *that*, which is 18s.; finally 6s. per £ on *that*, say 6s.—together £4, 4s. This method may serve on small sums; but in order to secure accuracy we note here the sums per £ which require to be added for tax to the sums actually received in the case of these ‘free of tax’ dividends in the four years 1917–1921:

Year.	Actual Dividend.	True Dividend.	Tax.
1917–18, rate 5s. . . .	£1	£1 6 8	6s. 8d.
1918–21, rate 6s. . . .	1	1 8 7	8s. 7d.

The following is a formula for the calculation: Take the amount actually received; multiply it by 20; and then divide by 20 less the appropriate rate of tax expressed in shillings. This means that if you receive £7 and the rate to be dealt with is 6s., you multiply 7 by 20, which gives 140, and divide by 14 (being 20 less 6), when you have the result 10. This is correct, for £10 less tax at 6s. yields £7 net.

The matter is complicated by changes in the rate of

tax. The true question is: What is the rate paid by the company on the profits out of which the dividend is paid? That is sometimes stated in the upper part of the dividend warrant; if not, it can be ascertained on inquiry. As affecting the amount of true total income, the matter may have some importance in any case, but it is of most importance in exemption claims.

ILLUSTRATION NO. 1.

A dividend of £24, 10s. is received 'free of tax,' the normal income-tax rate being 6s. per £. The amount on which tax has actually been paid is found thus: Multiply £24, 10s. by 20 = £490. Divide £490 by 14 [20s. - 6s.] = £35.

ILLUSTRATION NO. 2.

If, when the normal rate of tax was 3s. per £, a 'free of tax' dividend amounting to £21, 5s. had been received, the sum on which tax had been paid would amount to £21, 5s. $\times 20 \div 17$ [20s. - 3s.] = £25.

'Tax-Free' with a Limit.—It has become very common to make the dividends on preference shares payable 'free of tax' with a limit, say, up to 5s. This means that when the normal or standard rate of income-tax for the year is 5s. (or whatever the limit may be) or less, the dividend is exactly in the position which is fully dealt with above. When the tax exceeds 5s. (or other limit) the position is different. To some extent the practice of companies varies; but for tax purposes the following shows the position. Assume £100 6 per cent. investment free of tax up to 5s. while actual tax is 6s. (1) *Exemption cases*: claim £2 (being 5s. on gross income of £8 to yield the £6 net) plus any tax actually deducted by the company. (2) *Adjustment cases*: assume you have borne £2, 8s. of tax, being 6s. on £8. With reference to these cases the £8 is arrived at just as though 5s. were the standard rate of tax, and as though the investment were tax-free without any limit; if these things were so, then a net free return of £6 on £100 would mean a gross or true income of £8, which, less 5s. tax, £2, would leave the £6.

II. INTEREST ON DEBENTURES AND LOANS.

A bargain to pay interest on a debt without deduction of income-tax cannot be enforced, but it does not follow that it will not be complied with if made. Many companies have issued debentures and debenture stock bearing interest said to be payable free of income-tax. Various cases may be distinguished.

1. *A Bare Agreement to Pay Interest Free of Tax.*—Assuming that it is carried out, and the interest paid gross, the Inland Revenue's view is that all that goes into the statement of income is the actual cash sum received; no tax is payable, but neither can any repayment of tax be obtained. This is on the ground that the lender has paid or borne no tax.

2. If the agreement is to pay interest at such a rate as, after deducting tax for the time, will leave, say, 6 per cent., then the position is quite different in both respects. The interest is treated in the same way as tax-free dividends, already fully dealt with. With tax at 6s., the interest on a £100 6 per cent. debenture will figure in the statement of income at £8, 11s. 6d., and in an exemption case £2, 11s. 6d. of tax would be repaid, and lesser adjustments in other cases.

3. *Income Debentures.*—These are debentures on which the interest is payable only if the company's profits are sufficient. If there is a shortage, such a special clause as is stated in the preceding paragraph is assumed, though not actually present. Then the holder of a £100 debenture at 7 per cent., if he could get only £6, would be treated exactly as stated in that paragraph—that is, assuming that the company's profits had borne tax.

4. *Participating Debentures.*—A further complication is introduced when tax-free debentures have also participating rights with the shareholder in certain events; the extra interest thus received may not be entitled to tax immunity.

III. THE 4 PER CENT. WAR LOAN AND BONDS.

These are in quite a special position. In stating the full income the interest must be put down, not at the actual amount received, but at the gross sum which, after deducting tax, would leave the actual sum. This is exactly what we have explained above in the case of dividends. But it is a special condition of the issue of the 4 per cent. War Loan and the 4 per cent. National War Bonds that there shall be *no claim for repayment of tax* in respect of the income. It is not likely that people with small or medium incomes will directly hold much of these particular forms of the National Debt, but they may come to be interested in them as trust beneficiaries.

ILLUSTRATION NO. 1.

Total income £84, all drawn from the 4 per cent. War Loan. This is the net sum actually received. The true income is therefore £120, still below exemption limit. But no repayment can be obtained, for it is excluded by the terms of issue.

ILLUSTRATION NO. 2.

Only income 4 per cent. War Loan £1400 actual, which is gross £2000. No allowance or relief of any kind can be obtained.

ILLUSTRATION NO. 3.

Total income—

4 per cent. War Loan £157, 10s. actual, which is	
gross	£225
Other investment income, taxed at the source	367
	<hr/> £592
Marriage allowance	£225
Family allowances	142
	<hr/> 367
	<hr/> £225

Repayment at 6s. on the marriage and family allowances can be obtained because they do not exceed the ordinary taxed income. This should still leave the tax-payer entitled to rate relief on the remainder—£225—at 3s. per £; but that cannot be obtained because it would involve repayment of tax on part of the War Loan income.

ILLUSTRATION No 4.

Total income—

4 per cent. War Loan £78, 15s. actual, which is gross	£112 10
Other investment income, taxed at the source	247 10
	<hr/> £360 0
Personal allowance	135 0
	<hr/> £225 0

Repayment of 6s. per £ on £135 will be obtained—£40, 10s.

But what about rate relief at 3s. on the £225? It would amount to £33, 15s. After deducting the £135 from the £247, 10s. there is only £112, 10s. of ordinary taxed income. But the tax paid on that is £33, 15s.; just the amount of the second claim, and so it can be allowed. The tax at 6s. paid on the £247, 10s. was £74, 5s., and that is all that is being claimed back—namely, £40, 10s. and £33, 15s. This shows that the 4 per cent. War Loan interest counts for the rate relief so long, and so far, as that relief can be met from the tax paid on *other* parts of the income.

Life Assurance Allowance.—In like manner the 4 per cent. War Loan interest (gross) counts as part of the income in measuring the one-sixth limit for the maximum allowance for life premiums; but the relief in respect of that allowance must be satisfied out of tax paid, or payable, on other parts of the income, and not to any extent out of tax compounded for on the War Loan interest. -

These cases result from the following conditions of issue as stated in the loan prospectus: 'In computing total income for the purposes of exemption, abatement, reduced rate of income-tax on earned or unearned income, &c., the income derived from such dividends will be treated as if the amount received represented the net income after deduction of income-tax at the full normal rate. There will, however, be no title to repayment of income-tax in respect of such untaxed dividends.'

IV. ANNUITIES.

The Annuitant.—It is very common for annuities to be bequeathed free of income-tax, which is quite legal. Thus, if a testator directs the trustees of his will to pay to his

widow an annuity of £350 free of income-tax, the trustees collect the income of the estate, pay income-tax on the whole of it, and pay the widow a clear sum of £350 each year without any deduction. Of course, the Revenue has no claim for income-tax against the widow, for the annuity is simply her share of the trust income, all of which has already been taxed.

Now let us suppose that the whole trust income is £500. The trustees pay income-tax at 6s. per £, which comes to £150, and so they have just enough over to meet the annuity. Let us also suppose that the widow has no other income. She very naturally begins to think that it is really *she* who has borne the £150 of income-tax, and that she ought to have right to some relief, looking to the amount of her income. So far as money goes, she is in exactly the same position, when the tax is 6s., as if her husband had left her either (1) an annuity of £500, *not* saying 'free of tax,' or (2) a life-interest in his estate. Now in both of these cases she would, at the very least, have been entitled to—

1. Personal allowance, 6s. per £ on £135	.	.	.	£40 10
2. Rate relief at 3s. per £ on £225	.	.	.	33 15
Minimum repayment	.	.	.	£74 5

But the official view is that, as an annuitant 'free of tax,' she is legally in a totally different position, and they refuse all repayment. Thus she has really an income of only £350 instead of £424, 5s., and so 'loses' £74, 5s. each year while tax is 6s. This is difficult to reconcile with the practice of the State in exacting legacy-duty on both the annuity and the income-tax.

But it must be clearly understood that the official view is not carried so far as to maintain that such an annuity is *untaxed* income. Thus, suppose a lady has a tax-free annuity of £200, and an ordinary investment income of £200, which latter is taxed at the source to the extent

of £60. Suppose, also, that her various allowances and reliefs would entitle her to a repayment of £60; she will obtain that repayment, for it will not be maintained against her that she has got it already by having paid no tax on the annuity. But if the repayments claimed amounted to £70, £60 would be granted and £10 would be refused.

The Payer of the Annuity.—Next let us consider the position of the person entitled to the balance of income after paying the annuity. Assume that the income is £100, the annuity £70, and that the surplus income after paying the annuity is bequeathed in the will to the testator's daughter. The trustees pay income-tax £30 and annuity £70, which exhaust the income. There is thus nothing for the daughter unless *she* can get back the income-tax, or some of it. It may well be that she has no other income, and so she would be entitled to total repayment of any income-tax which she can show she has paid or borne. She says two things—first, that either her mother or she *must* be the person on whom the tax burden falls, for there is no one else interested; and as the officials say it is not the mother—well, then it must be she, the daughter. Second, she says it certainly is so, for if the tax had happened to be abolished, the £100 income would have paid the £70 annuity and left over for her £30, being exactly the amount of tax which has in fact been paid. Accordingly she claims back the whole £30; but the official view is that she has no legal claim to that or any part of it. The ground is that she has this year in fact no income from her father's estate, and therefore cannot possibly have any income-tax. It thus results that, though the trust income, and also the income of both beneficiaries, are below the free limit of £135, £30 of tax is paid and lost.

There is no departure from this legal contention put forward by the Department, but since April 1917 a concession has been allowed. It is a very partial concession, but at least it is something in some cases. In the first

place, absolutely nothing is offered to the annuitant. The whole benefit of the concession, such as it is, is given to the person on whom the burden of the annuity falls. In the case of a trust, the claim is to be by the trustees; in other cases, by the payer of the annuity. The concession is that those parties shall be allowed such relief, *if any*, as could be claimed by the annuitant *if* the annuity had *not* been bequeathed free of tax. It thus all depends on personal and financial conditions applicable to the annuitant. It may be that the annuitant has already received, in respect of other income, all the relief to which she would be entitled even if the annuity had not been bequeathed free of tax, in which case the concession gives nothing. If, on the other hand, the annuitant is exempt, the whole tax will be paid back, but only as on the actual net annuity, and not to the annuitant. There are various cases between these extremes. In calculating the annuitant's income, tax is not to be added on to the annuity. Any sum recovered by the trustees will be surplus income (all already taxed), and available for the beneficiary of income behind the annuity.

So far we have been referring to tax-free annuities bequeathed in the usual terms. But we know that sometimes there is a bequest of an annuity subject to tax, and a separate direction to reimburse to the annuitant such income-tax as she may not be entitled to recover by exemption or relief. That probably creates a totally different position, and one in which the rights of parties would be more nearly the same as if the Department admitted claims by an ordinary tax-free annuitant.

Is it free of tax?—It is not out of place to note here that there is often misunderstanding on the question whether an annuity has been bequeathed free of income-tax or not. The chief consideration is that, although it may be difficult for any one but a lawyer to see it, income-tax is not a 'deduction.' Thus, if it is merely said in the

will that the annuity is to be paid 'free' or 'clear' or 'without any deduction,' that is not enough to free the annuitant from income-tax. But it is different if there is any reference to 'taxes,' although the very words 'income-tax' do not occur. Taking these two things together, it is not so difficult to understand (and it is the case) that if a testator bequeaths one annuity to his daughter 'free of all deductions *except income-tax*,' and another annuity to his widow 'free of all deductions,' the daughter pays income-tax and the widow does not. This is because the testator has chosen to label income-tax as a deduction.

On this question of free of tax or not there have recently been several decisions, some the one way and some the other, and, admittedly, it is not easy to reconcile the whole series.

We close, therefore, with the following cautions :

If you are an annuitant under a trust, and income-tax is deducted from the payments made to you, then, unless your income and other conditions are such that you can obtain repayment of *all* the tax, see whether the annuity is not truly bequeathed to you 'free of tax,' in which case the deduction ought not to be made.

If you have to pay or bear the burden, or a share of the burden, of an annuity (for instance, if you are entitled to the balance of the income of a trust estate after an annuity is paid), and if the annuity is being paid without deduction of tax, make certain that this is right, and is not due to some one misunderstanding such phrases as 'free' or 'clear' or 'without deduction.' Assuming that it is free of tax, you will look after your rights under the 'concession' stated on p. 181.

If you are a trustee, be very careful to be thoroughly advised on the question whether any annuities are, or are not, truly 'free of tax,' for if you make a mistake you will almost certainly find it raised against you some day

in the form of a claim that you must, out of your own pocket, put right the error. If free of tax, the 'concession' calls for attention.

Finally, remember that while a bequest—that is, a legacy—free of tax is valid, any contract or agreement to the same effect is illegal and void, so that tax is deductible, and a trustee would be liable for paying in full. This applies even to a bequest in lieu of a contractual right—for example, a bequest by a husband to his widow of an annuity 'free of tax' in lieu of an annuity for which she contracted in her marriage settlement.

V. SALARIES.

It is not uncommon for salaries, large and small, and directors' fees, to be paid free of tax. With respect to salaries, this may mean many different things according to the degree of benefit which the employers may arrange to give in addition to the fixed salary. But for the present purpose the central fact is that, according to administrative practice, this additional benefit, whatever it may amount to, is regarded by the authorities as being itself additional taxable income.

CHAPTER 20.

FAMILY ALLOWANCES.

THREE different allowances fall to be treated in this chapter. They all have this feature in common, that there is no income-limit in the case of the tax-payer.

I. CHILDREN.

1. THE STATUTORY ALLOWANCE.

An allowance is made to the tax-payer for 'children' in life on 6th April of the year of assessment, and then under sixteen years of age, or without any age-limit if the child is receiving full-time instruction at any university, college, school, or other educational establishment. The age-limit also disappears if the child is incapacitated and dependent on the tax-payer; but if that is the ground of claim, the allowance is only £25.

The allowance is £36 for the first or an only child, and £27 for every other child. When the age-limit applies, it means, in the tax year 1920-21, that the child must have been born after 6th April 1904 and on or before 6th April 1920. Birth after the latter date, though before the return or claim is sent in, will not do. If the child's sixteenth birthday is on 6th April 1920, that child is too old, if the age-limit applies. Death of the child after 6th April, before the return or claim is sent in, does not defeat the allowance.

Who are Children?—Step-children are included though neither parent be living, but not illegitimate children unless the parents have married after the birth, in which case the children count for this allowance whether the

marriage has (as usually, though not always, in Scotland) or has not (as in England, Wales, and Ireland) the result of making the children legitimate. But indeed it would appear that this condition of marriage has in certain cases been removed. Children who have been adopted by the claimant are included.

During marriage it is understood that the husband can claim on account of his wife's step-children.

After separation or divorce it may be that both spouses can claim on account of the children of the marriage and on account of those who are children of the other spouse—that is, the claimant's step-children.

In the year of the father's death both he and the widow are entitled to the full claim.

It is not necessary that the child be living with the claimant, or even supported in whole or in part by the claimant. The child may have means of his or her own, but nevertheless the claim may be made by the parent or step-parent, with this exception, that if the child has an income exceeding £40 there is no claim. It will be observed that the reference is to income, not capital or expectations. The £40 refers to what is income for tax purposes. This does not include gifts, but it does include money applied for the child's benefit under trusts. Scholarships and bursaries are excluded in reckoning the £40.

The cases of (1) incapacitated children over sixteen and (2) adopted children are exceptional. The former is dealt with on p. 195. As to the latter, the adopting 'parent' can claim only if he (or she) has the custody of the child, if he maintains the child at his own expense, and if there is no one else entitled to claim on account of the child, or if that other person has relinquished the claim. Clearly the actual parent may claim the allowance unless he has given it up, or now does so; if he claims, the adopter cannot. Often the parents are unknown, and it is to be

assumed that in such cases a sensibly broad view will be taken, and that the claim of the adopting parent will be allowed. It must be remembered that if the actual parents are exempt from income-tax (a not uncommon case) they cannot claim this allowance, and that fact, when proved or sensibly presumed, opens the way to the adopter's claim. Further, the allowance is applicable to cases which would never in ordinary language be described as adoption—for example, orphan children living with, and maintained by, a grandparent, an uncle or aunt, or even an elder brother. Another result appears to be that the parent of an illegitimate child, having the custody of, and solely maintaining, the child, is entitled to the allowance. The same individual cannot count both as an adopted child and a dependent relative or housekeeper.

It appears not to be necessary that the relationship shall exist on 6th April of the year of assessment. Thus a step-relationship established by a marriage at any time in the course of the year should give rise to the claim. This has now been officially admitted, at least where the parent has not already made the same claim, and the only claim is by the step-parent; but it is thought that both the mother and the step-father may be entitled to the claim in the year of marriage.

It is not necessary that the child shall be under sixteen years of age at the end of the financial year. Though the child is sixteen on 7th April of that year, the claim is good.

There is no limit to the number of 'children' on account of whom the claim may be made.

If this claim for repayment is dealt with by itself alone, the form is No. 40C. There is a separate schedule of particulars to be filled up when a claim is made for an adopted child.

2. CHILDREN—LEGAL OBLIGATION.

Every parent is under both a natural and a legal obligation to maintain his or her children, but that is not the kind of obligation to which we refer. It is not uncommon to find a widow entitled, in terms of her husband's will, to the income of his estate, under an express obligation laid on her to maintain the children. When that is so, it may be open to her to treat a reasonable part of the income as set apart each year for each child. If and when this can be, and is, done, it works quite differently from the allowance dealt with above. For one thing, there is no age-limit, unless indeed the will imposes one, as by limiting the provision to minority. The widow's income is reduced by the amounts set apart, or deemed to be set apart, for the children, and those amounts then fall to be treated as income of the children. If that has the effect of bringing their incomes over £40 each, then the widow is excluded from the statutory allowance above dealt with; but otherwise there is no reason why she should not have both that allowance and the separate relief now being dealt with. The children may be entitled to exemption, or, at any rate, to very large separate tax reliefs. In these ways the family gain may be considerable.

The amounts to be set apart, or deemed to be set apart, for the children must vary according to the amount of the income, the station in life, the requirements of education, and the cost of living. In a recent case where the income was about £800, £115 a year was, under the author's advice, obtained from the Revenue authorities as an allocation for each of two unmarried daughters (together £230) out of the mother's life-interest, where no education expense was involved. In other cases it might easily be double. There is evidence that until the publication of the first edition of this book the possibility of this relief was not generally known. The obligation on the mother need not neces-

sarily be in a will; it may, for instance, be contained in a marriage settlement.

ILLUSTRATION.

A widow's only income is her life-interest under her husband's will, bequeathed on condition of her maintaining and educating the family. The family have no separate incomes. The income is all taxed at the source, and amounts to £1000

Deduct—

1. Personal allowance	£135	
2. Statutory allowances for two sons, under sixteen, at school, and two daughters, over sixteen, full- time students for professions	117	252
		<u>£748</u>

Tax, £225 at 3s.	£33 15
" 523 at 6s.	156 18
<u>£748</u>	
Tax liability	£190 13

And as £300 of tax has been paid by deduction, there would be a repayment claim for £109, 7s.

The above is apart from the additional claim on account of the clause in the will. That being raised, the whole position is entirely changed. Much depends on the schools and universities which the sons and daughters are attending; but the education is a temporary phase, and the condition in the will is assumed to be permanent. It cannot, therefore, be wrong to put down, as a minimum, £150 for each of the four, or £600 in all. That reduces the widow's income to £400

Deduct personal allowance	135
	<u>£265</u>

The statutory allowances for the children are now lost because each has an 'income' exceeding £40.

Tax, £225 at 3s.	£33 15
" 40 at 6s.	12 0
<u>£265</u>	
Widow's tax liability	£45 15

Then each of the four children has an income of £150.

Deducting the personal allowance of £135, that leaves £15 liable at 3s., which is £2, 5s. Multiplied by 4 that gives	9 0
Total household tax liability	<u>£54 15</u>

This replaces £190, 13s., and shows a saving of £135, 18s. a year while the conditions last. But probably the £150 for each is too low, at present, during the education period. However, on the above footing the widow would be assumed to have suffered, at the source, 6s. on £400

(£1000 less £600), i.e. £120; and her true liability being £45, 15s., she applies for repayment of the difference £74 5

And each of the four children is assumed to have suffered, at the source, 6s. on £150, i.e. £45; and the true liability being £2, 5s., each applies for repayment of the difference, £42, 15s., which multiplied by 4 gives 171 0

Total repayments £245 5

Deducting this from the tax paid at the source 300 0

Leaves the household ultimately suffering the total tax liability as above £54 15

It should be added that this maintenance relief has, under the author's advice, been obtained in another recent case where the clause was in the form of a mere power to the trustees to apply so much of the income for the maintenance of the children, and though that power had never been expressly exercised, but the whole income had been simply unconditionally paid to the widow, who was, however, in fact maintaining the children.

3. CHILDREN'S INCOME.

Vested.—If the children are absolutely entitled to the income, they are exactly in the same position as an adult, except that all returns and claims for repayment will be made by the guardian.

Contingent.—When we speak of a minor having a contingent interest in income, what we refer to is such a case as a right under a will by which the minor is to become entitled, if and when he attains majority (or if and when she attains majority or is married), to a capital sum with its accumulated income; but meantime the trustees who hold the investments are entitled, in their discretion, to apply the whole or part of the income for the maintenance and benefit of the minor. Assume the minor is ten years of age, and the income £120. The trustees receive it subject to deduction of tax at the full normal rate of 6s. per £, which yields, net, £84. They allot £45 a year for the present use of the minor, and accumulate the balance. The only claim which can be made for repayment of tax is

limited to the £45. It is here assumed that the minor has no other income. He is thus entitled to exemption.

The official view is that repayment can be obtained only with reference to the actual amount applied by the trustees. Thus, if they apply £70, that no doubt, at the 6s. rate, corresponds to trust income of £100; but all that will be repaid is 6s. on £70, not on £100. It might make a difference if the trustees' resolution, properly recorded, were to apply annually £100 less tax.

The proper party to make the claim is the minor's guardian for the minor's benefit.

Until recently it was a hardship that the balance of the tax paid by the trustees was lost. The trustees could not claim repayment. Neither could the minor. If and when he obtained an absolute right, he was able to get back only, at most, four years' tax on the unspent income. This grievance was removed by a change in the rules introduced in April 1917. Claims on account of the tax on the accumulations of income may be made within three years after the end of the tax year in which the right becomes absolute. The claim will, of course, not necessarily be for the whole tax. The amount reclaimable will depend on each year's total income during the period of accumulation, and also on any partial relief obtained during the period. The claim goes back to the beginning of the period of accumulation. No interest is allowed. So far as the income is applied and not accumulated, claims must, as before, be made at least every three years. It is clear that those current claims are unaffected by the possibility of the accumulated income of the same years afterwards falling in and giving a total income which would have reduced or extinguished the claim. Further, it appears that at the end the claimant is entitled to take each year of the accumulating period by itself.

So long as the right remains contingent, the rights of exemption and relief are determined by the amount

applied for each minor's benefit, and not by the total trust income, or by the total income to which the minor is contingently entitled. Thus, if the trust income is £1000, minor's contingent share £500, of which there is applied for his benefit £100, he is entitled to exemption; if £200 is applied for his benefit, he has the personal allowance of £135 and reduction of tax to 3s. on the balance of £65.

Claim Form No. 44.

II. CERTAIN HOUSEKEEPERS.

The word 'housekeeper' is used in the official forms, but not in the Act of Parliament. In fact, the women referred to may, or may not, be engaged in housekeeping duties at all; but they must be in the position of nurses of, or guardians to, children. The allowance is always £45.

1. WIDOWERS.

The allowance applies not to any widower, but only if he has a child or children (including step-children and adopted children) in respect of whom he is entitled to the children allowance. Nor does it even then apply to any housekeeper, but only to a female relative of the widower or of his deceased wife who resides with him to take care of the children; except that, if no such relative is available, any other female resident with the tax-payer for the same purpose qualifies for the allowance.

The allowance applies to widowers only, and is not available to a man who is deserted by his wife or who has had to obtain a divorce. There is no definition of 'relative,' and the Chancellor of the Exchequer pointedly refused to supply one. It was also indicated that the probability is that the spirit will be respected more than the letter, and that the allowance may be extended to cover, or that a like allowance by concession may be given in, respectable and proper cases, though the precise conditions are not present. In no case is there any condition

as to the existence or non-existence of salary or wages, or that the tax-payer is maintaining the relative, or as to her income.

If all the children for whom the children allowance might otherwise be obtained have separate incomes of over £40, this housekeeper allowance cannot be obtained. It is essential that there shall be under the care of the housekeeper at least one child in respect of whom the children allowance is obtained. Thus, if there are two children, one at home with an income of £45, and one away with no income or an income of £40 or less, the housekeeper allowance cannot be obtained.

The allowance cannot be obtained if any *other* person is entitled to a tax allowance in respect of the same female relative—for instance, as a child or as a dependent relative—unless any such other claim is given up.

Nor can it be obtained if the female relative is a married woman living with her husband and the husband has obtained the marriage allowance. This seems to indicate that the housekeeper's residence with her employer need not be continuous.

It does not appear to be necessary that the housekeeper shall be in residence the whole tax year or at its commencement. It may be that this allowance and the marriage allowance could both be obtained in one year; also that the ~~same~~ female relative could qualify for this and for the incapacitated dependant allowance; also that this allowance might be obtained in respect of a child of the tax-payer over sixteen years of age, or even under that age, and in addition to the full children allowance.

2. WIDOWS.

Widows are in exactly the same position as widowers in regard to this allowance. The housekeeper is to be a female relative of hers or of her deceased husband; but if no such relative is available, any other female will do.

3. UNMARRIED PERSONS.

The housekeeper allowance is extended to any unmarried person, male or female, in respect to the case of any brother or sister of his (or hers) who stands to the tax-payer in the relation of an 'adopted' child. That means that the tax-payer is maintaining the brother or sister, and that the latter is under sixteen years of age, or a full-time pupil or student, and does not have an income exceeding £40.

The housekeeper must be the tax-payer's mother (a widow, or living apart from her husband) or other female relative. A girl 'adopted,' under sixteen, may be a 'housekeeper' when over that age. The housekeeper must reside with the tax-payer and be maintained by him; but there is no rule regarding the limit of her income, if any.

The allowance cannot be obtained if either the tax-payer or any other person is entitled to any other family allowance in respect of the housekeeper, unless the right to that other allowance is given up. This means that the tax-payer cannot have this allowance if either he or any one else, in respect of the same woman, claims an allowance as a child, adopted child, or dependent relative. But, of course, if the tax-payer has the option he will claim this allowance, for it is larger than the others.

4. OLD OR INFIRM TAX-PAYERS.

Starting from April 1920 there is an allowance of £25 to any tax-payer who, owing to age or infirmity, 'is compelled to depend upon the services of a daughter resident with and maintained by him or her.' This partakes somewhat of the housekeeper allowance and somewhat of the dependent relative. There is no limit of income in the case of either the tax-payer or the daughter. There appears no reason why a married man whose wife resides with him may not obtain this allowance if he and his wife are both old or infirm, and if a daughter is maintained in the household. Probably a step-daughter would qualify.

III. DEPENDENT RELATIVES.

This is an allowance of £25 for each dependent relative maintained by the tax-payer. In the case of a male claimant of the allowance the dependant may be a relative of his, or of his wife, or (it is understood) of his deceased wife. In the case of a female claimant the dependant may be a relative of hers, or of her husband, or (it is understood) of her deceased husband. The conditions are:

1. *Relationship*.—This is not defined. Whether through the tax-payer, or his or her wife or husband, it may be (*a*) through the full blood or the half blood, (*b*) through father or mother, (*c*) not by blood, but by marriage, (*d*) step-relationship, (*e*) without limit of degree, (*f*) adoption relationship, if established before the adoptee was sixteen, and though that relation has not been continuous since. Of course, a child is a relative, and thus if a child is incapacitated there is no question of any age-limit for an allowance, but the amount falls from £36 or £27 to £25.

2. *Incapacitated*.—The general rule is that the relative must be (not necessarily totally) incapacitated by old age or infirmity from maintaining himself or herself. But this condition does not hold if the relative is the widowed mother of the tax-payer or of his or her wife or husband.

3. *Income*.—The relative's income must not exceed £50 a year. This holds in all cases. It means income for income-tax purposes. Until April 1920 the limit was £25.

4. *Maintenance*.—The tax-payer must be maintaining the relative, but it need not be sole and complete maintenance. If two or more contribute to the maintenance, the £25 is apportioned among them in proportion to their contributions.

There is no limit on the number of dependent relatives.

The allowance is available to married men, bachelors, widowers, spinsters, widows, and married women living separate from their husbands.

CHAPTER 21.

LIFE ASSURANCE.

AN allowance from income-tax is given on this head, the idea being to encourage thrift and the making of a provision for one's own old age and for those who come after. The allowance is in respect of premiums or contributions paid in the following cases:

1. Premiums on policies effected by the tax-payer on his (or her) own life;
2. Or on the life of his wife.
3. Premiums paid by a wife out of her separate income on policies on her own life;
4. Or on the life of her husband.
5. Premiums on contracts made by the tax-payer for a deferred annuity on his (or her) life;
6. Or on the life of his wife.
7. Premiums paid by a wife out of her separate income for a deferred annuity on her life;
8. Or on the life of her husband.
9. Contributions to widows' funds.
10. Contributions to trade unions so far as applicable to superannuation benefits.
11. Annual sums paid or deducted by or from any person in respect that he 'is under Act of Parliament or under the terms or conditions of his employment liable to the payment of any sum or to the deduction from his salary or stipend of any sum for the purpose of securing a deferred annuity to his widow or provision for his children after his death.' And, as we shall see on p. 201, in certain cases even sums paid for provision for dependants other than wife and children entitle to a tax allowance

The payments may be made to any insurance company lawfully established in the United Kingdom or in any British possessions, or lawfully carrying on business in the United Kingdom, or to a registered friendly society, or, in the case of a deferred annuity, to the National Debt Commissioners.

General Rules.—The policies need not be secured in any way for widow or family. The allowance is not confined to married persons. An unmarried man who contributes to a widows' fund, as many do and must, gets the allowance. Nor is it any bar that the policies are assigned to some third party, not a member of the family, whether the assignment be absolute or by way of mortgage, or trust, or otherwise, so long as the premiums are paid out of the tax-payer's income, or that of his wife. Thus, a very common case is that the policies were effected by, or have been assigned to, marriage trustees, and the husband is bound to pay the premiums; or the trustees pay them, and recover them from him or from the income of the wife's settled estate. That case is within the rules. Again, a life-tenant may have mortgaged his life-interest and a policy on his life, and in fact it may take the whole income of the settled fund to pay the year's interest on the loan and the year's premium on the policy. This is within the allowance. But it would be otherwise if the mortgagee were to sell or foreclose, for then not only would the policy pass from the life-tenant (which might not be fatal), but so would the life-interest, out of which the premiums are paid, and so the premiums would cease to be paid by the life-tenant.

Classes of Policies.—As to various kinds of assurances and benefits:

Allowed.—1. Ordinary whole-life policies.

2. Short-term policies—payable only on death, and only if it occur within the short term.

3. Contingent policies—payable only on the death of the

life assured, and only if it occur before some date or in the life-time of some other person.

4. Endowment policies—payable at a certain age, or on death if earlier.

5. Double endowment—a certain sum payable at a certain age, or one-half on death if earlier. But the 7 per cent. premium restriction below is counted on the smaller sum.

6. Accident policies, if covering fatal accidents. If the policy covers both fatal and non-fatal accidents, the proportion of premium applicable to the death risk will be allowed if it either appears on the face of the policy or of the premium receipts, or is otherwise certified by the company. Some 'comprehensive' or omnibus policies cover death from a very limited class of accidents. There also a proportion would pass for the tax allowance, but it would be very small.

7. Combined life and sickness policy to the extent of the proportion applicable to the death risk.

8. Joint assurances on lives of husband and wife, or of partners. Partnership policies are effected by, say, two partners, payable to the survivor, for the purposes of the firm, on the death of the other partner. There may be difficulty in apportioning the premium between the partners for the purpose of the tax allowance. Much may depend on the circumstances of the particular case as affecting both the question, and the manner, of admissibility.

Not Allowed.—1. Absolute accumulation policies, payable at a given date, neither later nor sooner, and irrespective of death.

2. Policies on the lives of the tax-payer's children.

3. Child's endowment policy payable only at majority, premiums returnable in event of earlier death.

4. Accident policy, which excludes fatal accidents.

5. Sickness policy.

6. Policy on two or more lives, not being matrimonial or business partners.

7. Deferred annuity contract, premiums returnable on death before the date fixed for commencement of the annuity. No deferred annuity contracted for after 22nd June 1916 counts in any event.

8. Deferred assurance, contracted for after 22nd June 1916, during the period of deferment.

9. Contributions to thrift funds.

10. Any assurance not dependent on death.

Fluctuating Premiums.—It is not uncommon to have policies effected on different credit or half-credit bases, enduring for certain short periods at the beginning. Thus, (1) sometimes a receipt is given by the company for the whole premium, but there is a separate memorandum under which half or other proportion of the amount remains a debt on the policy, with interest; (2) sometimes the premiums are much lower for the first few years, and higher ever after, but without any debt arising against the policy; and (3) sometimes the premiums are much higher for the first few years, and lower ever after. In the first of these cases, all that enjoys the allowance is the sum actually paid in cash year by year. In the second and third cases the whole yearly payments, and no more, are available for the allowance; but in case No. (3) it might be that, on the figures, the initial premiums would offend against the 7 per cent. restriction noted below.

Single Premiums.—Policies are sometimes effected by 'single' premiums—i.e. one lump sum paid down, with no more to pay ever after, except possibly 'extra' premiums for war risk or foreign residence. This is specially common in connection with loan transactions. Until 6th April 1920 such sums have not been passed for the tax allowance. That is now altered, but all the conditions noted below must be complied with. Thus, if a man's income is £1200, and he pays £300 as a 'single' premium on a policy, and even though he has no other premium payment, only £200 can pass, because it is the full one-

sixth of the income. Further, there is the 7 per cent. restriction. Thus, if the policy were for only, say, £1000, not even £200 could pass, but only £70. Previously, however, nothing would have passed at all.

'Extras.'—Extra premiums are available as well as any others, but they are subject to the 7 per cent. restriction.

RESTRICTIONS.

The restrictions are :

1. **Income Ratio.**—The premiums must not exceed one-sixth of the income as ascertained for income-tax purposes, which may be either less or more than the actual income. If the premiums do exceed that proportion, only the one-sixth counts for the allowance. In the case of married persons living together it is the combined income. All expenses of earning the income and all legal burdens on the income are first taken off, but not any of the income-tax allowances. Thus, if the income is £1200, all earned, only £1080 is 'assessable' income, and other allowances may bring out a 'taxable' income of, say, £800; but for this life assurance allowance the one-sixth is calculated on the £1200, and so the maximum sum which may count for the tax allowance is £200.

2. **Premium Ratio: Death Policies.**—In ordinary insurances payable on death no more is allowed than 7 per cent. on the original sum assured, ignoring bonuses. Thus, if an old person, or a very bad life, insures for £1000 at an annual premium of £80, only £70 will count for allowance, and that only if the income is £420 or more. Endowment policies, payable at a stated age or death if earlier, are in the same position. This restriction started in 1915-16, but it applies no matter when the policy was taken out.

3. **Other Benefits.**—For benefits other than death claims—e.g. contributions to funds and premiums for annuities—there is a fixed maximum of £100 a year, and always

subject to the total restriction to one-sixth of the income. This started in 1915-16, but it applies to prior contracts.

4. **Contracts after 22nd June 1916.**—Any one insuring after that date, or contracting after that date for a deferred annuity, is, so far as these arrangements are concerned, in the following position :

(1) His tax relief is not to exceed 3s. per £.

(2) He obtains no relief at all on account of payments for deferred annuities, with an exception in favour of certain superannuation or *bona fide* pension schemes for the benefit of employees, or their wives, widows, children, or other dependants, whether during the tax-payer's life or after his death.

(3) He obtains no relief on account of premiums 'during the period of deferment in respect of a policy of deferred assurance.' This refers to the rare form of assurance under which the premiums commence to be payable some years before there is any effective assurance. The premiums do not count for the tax allowance until the time comes when, if death occurred, the policy would be paid. There is an exception in favour of such schemes as are mentioned in the preceding sub-paragraph.

THE RELIEF.

What is obtained is the reduction of the tax payable by an amount equal to tax at a certain rate on the premiums and other contributions which are passed as qualifying for the allowance. Accordingly, all the other tax allowances should first be stated, and on the basis of these there should be brought out what would be the tax liability of the individual if he were entitled to no life assurance relief. Then, from that amount of tax, deduct the tax rebate for assurance. It may lead to quite inaccurate results if the amount of the premiums are simply put in along with the other allowances.

Then the question is—At what rate is the relief in respect of life assurance to be calculated? The answer depends on circumstances.

- | | |
|---|---|
| A. Policies and contracts effected or made on or before 22nd June 1916. | Rate at which the assurance relief is calculated. |
| 1. If the total income does not exceed £1000. | One-half of the standard rate. At present, 3s. per £. |
| 2. If the total income exceeds £1000 but does not exceed £2000. | Three-fourths of the standard rate. At present, 4s. 6d. per £. |
| 3. If the total income exceeds £2000. | The standard rate. At present, 6s. per £. |
| B. Policies and contracts effected or made after 22nd June 1916. | One-half of the standard rate of tax (at present, 3s. per £), no matter what the total income is. |

ILLUSTRATION No. 1.

Earned income	£350
Wife's earned income	50
Investment income	50
	<u>£450</u>

Deduct—

1. Earned income relief	£40
2. Marriage allowance	£225
Plus wife's earned income relief	45 270
3. Children allowance (three)	90
4. Dependent relatives (two)	50 450

The tax-payer pays £20 a year for life assurance; but as his other allowances exhaust his income, the life assurance cannot come into operation.

ILLUSTRATION No. 2.

Income—all earned	£500
Deduct—	
1. Earned income relief	£50
2. Marriage allowance	225
3. One child	36 311
Taxable income	<u>£189</u>

Tax at 3s., £28, 7s. ; less 3s. on £30 life premium, £4, 10s. Net liability, £23, 17s.

ILLUSTRATION No. 3.

Income—all investment	£1500
Marriage allowance	225
Taxable income	<u>£1275</u>
Tax, £225 at 3s.	£33 15
1050 at 6s.	315 0
<u>£1275</u>	<u>£348 15</u>
Premium, £160 on 1915 policy at 4s. 6d. (income between £1000 and £2000)	£36 0
Premium, £90 on 1917 policy at 3s.	13 10 49 10
Net liability	<u>£299 5</u>

ILLUSTRATION No. 4.

Earned income	£2100
Investment income	900
	<u>£3000</u>
Deduct—	
1. Earned income relief, maximum	£200
2. Marriage allowance	225
3. Children allowance (three)	90 515
Taxable income	<u>£2485</u>
Tax, £225 at 3s.	£33 15
2260 at 6s.	678 0
<u>£2485</u>	<u>£711 15</u>

The maximum of premiums which can count for the life assurance allowance is £500. The tax-payer pays £1000 a year in premiums—£500 on a policy effected in 1910, and £500 on another policy effected in 1920. The latter can earn relief at only 3s., whereas on the other the rate of relief is 6s. The claim is, of course, made on the latter. It amounts to

	150 0
Net liability	<u>£561 15</u>

ILLUSTRATION No. 5.

Income and allowances as in No. 4. Taxable income, £2485, on which, before allowing for life assurance, the tax is as above . . . £711 15

Brought forward . . . £711 15

The tax-payer has policies as follows :

	Premium.
1. Whole life, £6000, dated 1880	£100
2. Payable at death or age sixty £4000, dated 1890	140
3. Payable at death £2000, or at age sixty £4000, dated 1900	160
4. Whole life, £3000, dated 1917	180
	<u>£580</u>

The results are :

1. £80 must be disallowed as in excess of the maximum £500.

2. The premium on policy No. 3 offends against the 7 per cent. rule, that being measured by the £2000, not the £4000. Disallow £20.

3. Policy No. 4, being effected after 22nd June 1916, can earn allowance at not more than 3s. per £.

4. Final result.—The allowance on £500 will be claimed as follows :

On policy No. 1, full premium, £100 at 6s.	£30
On policy No. 2, full premium, 140 at 6s.	42
On policy No. 3 (£160 less £20) 140 at 6s.	42
On policy No. 4 (part) 120 at 3s.	18
	<u>£500</u>
Net liability	<u>132 0</u>
	<u>£579 15</u>

ILLUSTRATION NO. 6.

Income—

4 per cent. tax-compounded War Loan, £1163, 15s. actual, which is gross £1662 10

Other investment income 737 10

£2400 0

Marriage allowance 225 0

£2175 0

Tax on £225 at 3s. £33 15

Tax on £287, 10s. at 6s. 86 5

£512 10 £120 0

Marriage allowance, 225 0

£737 10

The maximum sum of premiums which can count for the assurance allowance is £400, being one-sixth of the total income, £2400. The tax-payer pays £400 of annual premium on a policy effected in 1915. The allowance on that at 6s. is £120 0

No tax assessment.

Note that the tax-compounded income counts in (1) fixing the total income, of which one-sixth is allowable; and (2) fixing the rate of tax at which the assurance relief is to be granted in the case of policies effected on or before 22nd June 1916.

ILLUSTRATION NO. 7.

Income—

4 per cent. tax-compounded War Loan, £1400 actual, which is gross	£2000
Other investment income	360
	<hr/>
Personal allowance	135
Taxable income	<hr/>
	£2225
Tax on £225 at 3s.	£33 15

The tax-payer pays £350 a year of premiums on old policies, which is not more than one-sixth of his total income of £2360. But nevertheless all the relief he can obtain is the repayment of the £33, 15s., or the cancellation of that assessment. The reason is that to allow it against the £2000 4 per cent. War Loan dividend would be in breach of the terms of issue, for it would mean a repayment of tax on that loan.

As to these 4 per cent. loan and bonds cases, see p. 178.

MARGINAL RELIEF.

Great hardship might result from the scale of rates of relief in the case of what we may call the 'old' policies or contracts—that is, those entered into on or before 22nd June 1916. Thus, suppose the income is exactly £1000, and that the premiums on old policies are £150. The tax relief would have to be calculated at 3s. only, and the relief would be only £22, 10s. But if the income were £1000, 0s. 1d., the rate would be 4s. 6d., and the relief would be £33, 15s. So the tax-payer would lose £11, 5s. because his income is 1d. short. In like manner, if the income is £2000, and the premiums on old policies £300, the tax relief would have to be calculated at 4s. 6d. only, and the relief would be only £67, 10s. But if the income were £2000, 0s. 1d., the rate would be 6s., and the relief would be £90. So the tax-payer would lose £22, 10s. The loss in both cases is just 1s. 6d. per £ on the premiums. Such results are prevented by the marginal relief.

The way it works is this. Suppose you are just a little under £1000 of *total* income—that is, before any deduction is made for earned income or for any allowance. Say the total income, all earned, is £990, and the premiums allowable are £100. Take 1s. 6d. per £ on the premiums, which is £7 10

Off that take 6s. per £ on the sum by which you are short of £1000—that is, £10 less the earned income relief on that, £1, net £9 at 6s. 2 14

The marginal relief gives a benefit of £4 16

Take another case, all investment income. Total income £1995, and premiums £330. Take 1s. 6d. per £ on the premiums, which is £24 15

Off that take 6s. per £ on the sum by which you are short of £2000—that is, £5 1 10

The marginal relief gives a benefit of £23 5

Note that there is no room for the marginal relief in the following cases:

1. In the case of policies effected after 22nd June 1916, for there is then only the one rate of relief—namely, 3s.

2. In the case of policies effected on or before 22nd June 1916, if the income is all from investments, unless the premiums are more than *four times* the amount by which the total income is short of £1000 or £2000. This is simply because 6s. is four times 1s. 6d.

3. In the case of these ‘old’ policies, if the income is earned, unless the premiums are more than four times the net amount (after allowing for earned income relief) by which the total income is short of £1000 or £2000. Example: Actual income, £960; premium, £144. The sum to be added to make the income £1000 is £40, but less earned income relief, net £36. The premiums are not *more than* four times £36. An increased allowance of 1s. 6d. on £144 is £10, 16s., but that is cancelled by 6s. on the assumed additional income £36, which also comes to £10, 16s.

ILLUSTRATION No. 1.

Income, all earned	£980
Deduct—	
Earned income relief	£98
Marriage allowance	225
Children (three)	90
Dependant	25
	<u>438</u>
Taxable income	<u>£542</u>
Tax, £225 at 3s.	£33 15
317 at 6s.	95 2
£542	<u>£128 17</u>

Premium £160 on an 'old' policy allowed at 3s. because the income does not exceed £1000 24 0

Without the marginal relief the net liability would be £104 17
But under the operation of the marginal relief the account is recast thus :

Earned income, assumed to be	£1000 0 1
Deduct earned income relief, now assumed to be raised to	£100
Other allowances as above, £225, £90, £25	340
	<u>440 0 0</u>
Assumed taxable income	<u>£560 0 1</u>
Tax, £225 at 3s.	£33 15 0
335 at 6s.	100 10 0
£560	<u>£134 5 0</u>

Assurance allowance on the £160 premium, now at 4s. 6d., being the rate of relief applicable to income between £1000 and £2000 36 0 0

Net liability under the marginal relief 98 5

Saving £6 12

Note that this saving is just the additional 1s. 6d. per £ on the £160 premium £12 0

Less 6s. tax on the assumed £20 of additional earned income, less the earned income relief, net £18 5 8

As above £6 12

ILLUSTRATION No 2.

Income, all investment	£1950
Personal allowance	135
Taxable income	<u>£1815</u>

Tax, £225 at 3s.	£33 15 0
1590 at 6s.	477 0 0
<u>£1815</u>	<u>£510 15 0</u>

Premium £325 on an 'old' policy. Relief allowance at 4s. 6d. as the income is between £1000 and £2000 . . .	73 2 6
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Without the marginal relief the net liability would be .	£437 12 6
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But recast the account thus :

Income, all investment, assumed as .	£2000 0 1
Personal allowance	135 0 0
	<u>£1865 0 1</u>
Tax, £225 at 3s.	£33 15 0
1640 at 6s.	492 0 0
<u>£1865</u>	<u>£525 15 0</u>

Assurance allowance on £325 premium, now at 6s., being the rate of relief applicable to incomes exceeding £2000	97 10 0
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Net liability under the marginal relief .	428 5 0
Saving	£9 7 6

Note that this saving is just the additional 1s. 6d. per £ on the £325 premium	£24 7 6
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Less 6s. tax on the assumed £50 of additional investment income	15 0 0
As above	<u>£9 7 6</u>

When a life assurance claim is made by itself the form is No. 39.

CHAPTER 22.

BROKEN PERIODS.

IN many cases a distinct saving may be effected by having regard to the fact that, even though the income for a whole year may be a large one, there is some exceptional circumstance which cuts the year short. In this connection 'the year' means the fiscal year, 6th April to 5th April. Thus, a man with £10,000 a year may die on 6th October, leaving his estate to ten persons in equal shares. In the year of his death no one is chargeable with tax on £10,000. The liability of his estate is for tax for that year on what actually accrued due to *him*, which was probably £5000. Then, if each of his ten legatees would otherwise, for that year, have had an income of £500, the other £5000 will be deemed to be divided among them, giving each a total income for that year of £1000.

Again, a lady with an unearned income of £500 marries on 6th July. Her income between April and July is probably £125. That is, for income-tax purposes, her whole income for that year, the income after marriage being, for tax purposes, her husband's. The £125 is accordingly exempt, as not exceeding £135, the exemption figure.

The same thing may arise in the first year of widowhood, or upon separation or divorce.

Also upon succession, as indeed we have seen in the first example stated above. Thus, each of the ten legatees there figured succeeds really to £1000 a year; but in the financial year—April to April—of the succession, each has to bring into charge only £500 from the succession.

This is well illustrated by a bequest of an annuity of £270 subject to income-tax. Let us assume two bequests, of that nature and amount, by two different testators to

two different annuitants. Let us further assume that both annuitants have no other income, and that both survive their respective benefactors for exactly one year. The only difference is that in the one case the testator dies on 6th April of one year, and the annuitant, A, on 5th April of the next year, and the other testator dies on 6th October of one year, and the annuitant, B, on 5th October of the next year. The difference thus is that in the first case there is no broken period, whereas in the second case there are two. 'Broken period' refers to periods of the financial year, 6th April to 5th April.

The annuitant A pays tax for one full financial year on £270, less the personal allowance of £135, equals £135 net, which at 3s. is £20, 5s.

The annuitant B is chargeable in two separate financial years. In each of these years his total income *for that year* is one-half of his annuity, or £135. Thus in both years he is under the exemption limit, and he pays no tax at all.

The last illustration shows the importance of watching this point closely at the commencement and also at the close of every case of life-interest (liferent) or annuity. But indeed, as already stated, it applies to all cases of succession or transfer on death, and both as regards the interest of the deceased and that of the successors. A special case is that of a minor's contingent income (see p. 190). If the trustees apply £360 a year the minor will in any full year get (1) £135 personal allowance free of tax, and (2) 3s. relief on £225. But if the application of the £360 starts on, say, 20th November, then in that financial year the allowance operates for only four and a half months, which is £135, and so exempt; and the minor is entitled to obtain repayment of 6s. per £ on the whole £135. It is assumed that the trust income is taxed at the source.

CHAPTER 23.

MISCELLANEOUS CLAIMS.

1. **Bank Interest, &c.**—This refers to interest paid on money borrowed from a bank, or from a stockbroker or discount house (see pp. 133–137). In order to obtain repayment of the tax on such interest you need a certificate from the lender vouching the amount. The matter may sometimes be adjusted in an assessment; it naturally is so when the money is borrowed for the purposes of a business, in which case the interest is entered as a business expense; and that method is followed in the case of people who have borrowed to take up War Loan holdings. When necessary there can be a direct application for repayment (Form 40A), accompanied by the certificate.

2. **Building Society Interest.**—If you have a loan from a building society, you require to take special care to see that the interest you pay is less tax to you in one form or another. The loan is probably repayable by fortnightly or other instalments, and in these it may not be clearly shown how much is principal and how much is interest. But part must, of course, be interest, and on that part you are entitled to deduction of tax. This you may obtain in either of two different ways. One way is that you are assessed on your house (on which we assume the loan is secured) not on its ordinary annual value, but only after deducting (in addition to other ordinary allowances) an amount equal to the interest on your debt. But if you do not obtain this abatement, then the other way is to insist on the secretary of the society paying you the tax on the interest, just as any other lender does.

3. **Wear and Tear.**—This holds only when plant or machinery is let on condition of the lessor ‘maintaining

and restoring' it. The position then is that part (or possibly the whole) of the rent is payable for the plant and machinery; that the lessee deducts from the lessor Schedule A tax on the full Schedule A assessment, and so the latter receives no tax allowance for the wear and tear. The remedy is a repayment claim. It must be made within twelve months after the expiry of the tax year. This is the only wear and tear claim which can be made by repayment.

4. Excess Profits Duty.—This is a deduction from profits in calculating income-tax, but it may happen that the latter is assessed before the former is ascertained, and so the income-tax assessment may afterwards be found to be excessive. If not rectified before payment of the second instalment of income-tax, a repayment claim is required.

5. Local Rates (Scotland).—This applies almost exclusively to income from mining rents and royalties. These are not assessed under Schedule A, but the tax is deducted by the mineral tenants. The receiver is in Scotland charged local rates upon these items of income. He has thus paid income-tax on the gross instead of on the net income. In practice any farm rents from the same estate may be released from assessment in order to afford relief, but this relief is inadequate if the farm assessments are less than the local rates on the mineral income. In that case there must be a direct claim for repayment. The form is No. 53, Scotland.

6. Lost Rents.—See p. 46. Forms 146 A and B.

7. Dominion Income-Tax.—See p. 165. This may require an independent claim (Form 40E), but usually it will be an item in a general claim.

8. Expenses of earning income. See pp. 11, 37, 62–65, 73, 89. Form 72.

9. Casual Income from land rights 'applied as productive capital.' See p. 25.

10. **Husband and Wife**, for separate assessment. See p. 140. Intimate before 6th July.

11. **Double Assessment**.—It sometimes happens that by mistake tax has been twice paid or borne on the same item. Thus a business or professional man, or a firm or a company, may pay Schedule A tax on the business premises, and omit to make that deduction in the Schedule D figures. This will be put right on an application within three years. Or, again, the same item of income might get into a firm's return and also into the return of a partner. This is not technically a case of double assessment, at least not to the full extent, but no doubt it also would be rectified within the same time-limit.

CHAPTER 24.

SUPER-TAX.

Rates of Tax.

1916-17. } All incomes exempt unless exceeding £3000,
 1917-18. } and in any case the first £2500 free.
 1918-19. } All incomes exempt unless exceeding £2500,
 1919-20. } and in any case the first £2000 free.
 1920-21. } All excess income over £2000.

INCOME.		1916-17. 1917-18.	1918-19. 1919-20.	1920-21.
First	£2,000	Free.	Free.	Free.
Next	500 up to £2,500	Free.	1s.	1s. 6d.
"	500 " 3,000	10d.	1s. 6d.	2s.
"	1,000 " 4,000	1s. 2d.	2s.	2s. 6d.
"	1,000 " 5,000	1s. 6d.	2s. 6d.	3s.
"	1,000 " 6,000	1s. 10d.	3s.	3s. 6d.
"	1,000 " 7,000	2s. 2d.	3s. 6d.	4s.
"	1,000 " 8,000	2s. 6d.	3s. 6d.	4s. 6d.
"	1,000 " 9,000	2s. 10d.	4s.	5s.
"	1,000 " 10,000	3s. 2d.	4s.	5s.
"	10,000 " 20,000	3s. 6d.	4s. 6d.	5s.
"	10,000 " 30,000	3s. 6d.	4s. 6d.	5s. 6d.
Over	30,000	3s. 6d.	4s. 6d.	6s.

Super-tax was introduced in 1909, but since then it has been much increased, and also applied to smaller incomes. Originally it hit no income which did not exceed £5000; even then £3000 was free, and the rate was 6d. per £. Now it hits all incomes over £2000, but only the excess over that figure, and the rate rises from 1s. 6d. to 6s. per £.

In certain ways super-tax resembles income-tax; in others it is in marked contrast. For the purpose of ascertaining the amount of income the rules of income-tax generally apply, but even as to that there are very important differences. To begin with, there are

No Allowances for any of the following:

1. Earned income relief. The earned income comes into the account at its full figure.

2. Personal or marriage allowances.

3. Family allowances—‘housekeeper,’ children, and dependent relatives.

4. Life assurance premiums, and it makes no difference that the super-taxpayer may be under obligation, say to a mortgagee, to pay the premiums.

But wear and tear stands—that is to say, the allowance which was obtained for income-tax last year.

When we turn to the calculation of the tax we find an essential difference as compared with income-tax. Beyond the free £2000, the excess income is divided into successive blocks, each block bearing its own rate of super-tax in an ascending scale, till the maximum of 6s. per £ is reached. The blocks are of various amounts. Thus take an income of £4000. The first £2000 is safe from super-tax; and here it may be as well to make it clear that this first £2000 is free, though the total income is £20,000 or £100,000. But to return to the £4000 income. The next £500—between £2000 and £2500—is the first super-tax block. It pays 1s. 6d. per £. The second super-tax block is also £500—between £2500 and £3000. It pays 2s. per £. The third is £1000—between £3000 and the total of the assumed income £4000. That £1000 pays 2s. 6d. per £. These three blocks, and all higher blocks, are each self-contained, paying its own rate of super-tax, and having nothing to do with the rate chargeable on the block below or the block above.

Individuals only.—Super-tax is chargeable only on

individuals, not on partnerships, and not on companies. As regards partnerships, each partner has to bring into his account for super-tax his full share of the partnership profits, irrespective of whether the profits have been wholly divided, or whether part has been retained in the firm undistributed. The only difference, therefore, is that whereas the income-tax assessment is imposed on the firm, leaving the partners to arrange the incidence of the payment among themselves, a separate and individual super-tax assessment is imposed direct upon any one or more of the partners who may be liable for that additional charge according to his total income from all sources, including his share of the firm's profits, and the firm has no concern with those super-tax assessments.

The position is materially different in the case of a company, say a company registered under the Companies Acts, and even though it may be what is known as a private company, or even a 'one-man' company. Take the case of a private trader converting his business into a limited company in which he has the greatly preponderating interest and practically the sole control. Nevertheless he is then a shareholder and not a partner. The company has an entirely separate legal existence. For our present purpose it results that his income from the company is measured, not by his share of the profits which the company makes, but by his share of what is distributed in the way of dividend. Assume his interest is nine-tenths of the whole, that the company's profits in a given year are £4000, and that it divides only one-half of that sum. The shareholder in question receives a dividend of £1800, and that is his whole income from the company for that year. But to avoid misunderstanding it is proper to add that the company pays income-tax on its whole profits; and, further, that if in any subsequent year the previously undistributed profits are drawn upon for dividend purposes, that dividend will then be income of the shareholder.

If, on the other hand, the undistributed profits are carried to reserve, it appears that by proper procedure the reserve may be capitalised and distributed in the form of further shares without attracting super-tax. As a kind of set-off to this, there is the fact that the dividends are all treated as unearned income, though directors' fees and management salaries are treated as earned, but this distinction is of no consequence for super-tax.

Non-Residents.—The individuals who may be liable to super-tax are just those who are liable to income-tax. In particular there is no exemption (except so far as existing for income-tax also, as shown in Chap. 18) of British subjects non-resident in the United Kingdom, or of foreigners, if the income is such as attracts British income-tax. This rule was arrived at only after an appeal to the law courts. It was arrived at on the ground that super-tax is simply a magnified income-tax. Yet it is not income-tax for all purposes. Thus a bequest of an annuity 'free of income-tax' leaves the annuitant to bear the burden of super-tax if his or her total income is such as to attract super-tax. See p. 232.

Further, if the person was resident here last year, super-tax is chargeable this year on the whole income-tax income of last year, though he may not be resident here this year. This, it will be observed, goes very much further than the rule stated in the preceding paragraph. The latter super-taxes only British income, while this rule super-taxes everything which was subjected last year to British income-tax owing to residence here. There may be a question in the converse case of residence in the United Kingdom this year but not last year.

ASCERTAINMENT OF INCOME.

In the course of the summer or autumn of, say, 1920 one proceeds to fill up a return of his income for super-tax.

The first thing to be noted is that it is a return for assessment for the tax year 6th April 1920 to 5th April 1921. It is not a return for assessment for the previous year, although in the main it is based on the income as adjusted for income-tax for that previous year, namely, 1919-20. This is made very clear at the top of page 3 of the yellow form, which bears that it is a 'return, for the purpose of super-tax for the year ending 5th April 1921, of total income from all sources as liable to income-tax for the *previous year* ended 5th April 1920.'

Even this, however, is not quite correct. The matter is just a little involved, but we shall try to make it absolutely clear. The rules are :

1. Take the income on which income-tax was paid last year, whether by direct assessment or by deduction at the source. It makes no difference that the income may have ceased at the end of last year. Thus if a man retires from business on 5th April 1920, still his business income as assessed to income-tax for 1919-20 will be super-taxable in 1920-21. But, if necessary, make the following—

Adjustments.—2. Give effect to any adjustments which have been obtained for last year's income-tax, whether by repayment or otherwise. This includes allowances for losses, short profits, substituted average, and reduction to actual income. But you will regard these for super-tax of this year only if already obtained for income-tax of last year.

3. As regards (1) income taxed at the source and (2) payments out of income, substitute figures on a *cash basis* for the different basis on which last year's income-tax figures may have been settled. Thus, if an investment yields an annual dividend for the year to 31st March, paid about 1st June, and if the dividend on 1st June 1919 was £50, and that on 1st June 1920 £100, it may be that the 1919-20 income-tax was fixed on the £100 figure as having

substantially 'accrued' in 1919-20. If so, then for super-tax 1920-21 you ought to strike it out and insert the £50 item, for that was the dividend 'receivable' in 1919-20. In like manner, if the widow of a deceased partner is entitled to receive from the business £20 a month, and on 30th June annually a further sum of 5 per cent. of the ascertained profits for the year to 31st March of the same year, a partner's total income for income-tax 1919-20 ought to be ascertained by deducting the percentage sum paid to the widow on 30th June 1920, for it 'accrued' substantially for 1919-20. If so, then for super-tax 1920-21 you ought to strike it out and substitute the lump sum 'payable' to her on 30th June 1919. These instances sufficiently indicate how very important in operation this rule of the cash basis often is. It requires special watching in the broken period cases mentioned below in connection with husband and wife, death, and succession.

4. As there is no super-taxation at the source, and no right of recoupment by deduction from payees, you deduct all sums paid for ground burdens, mortgage or other interest, annuities, royalties (patent or mineral), and all other items from which, on payment, income-tax is deducted.

ILLUSTRATION.

A is an individual business man. His income-tax position for 1919-20 was :

Schedule D assessment, gross, on his business profits on the average of 1916-19	£4300
Allowance for wear and tear.	300
	<hr/> £4000

Income from investments outside his business—

War Loan interest, taxed direct, Schedule D (this would be 1919-20 assessment on 1918-19 income)	£1000
Dividend from X Company receivable annually 1st June for year to 31st March previous. Gross dividend received 1st June 1920	400
	<hr/> 1400
Total income-tax income, 1919-20	£5400

Brought forward		£5400
But—		
1. A claimed the (war-time) substituted average on his business, which brought the £4000 down to £3600, a reduction of	£400	
2. He pays annually to Y royalties for the use of a patent. The annual settlements are on 1st June for the year to 31st March previous. From these payments he deducts income-tax. On 1st June 1920 he paid Y, <i>less tax</i> ,	600	
3. Life assurance allowance	500	1500
Sum on which A finally bore income-tax for 1919-20		<u>£3900</u>

Adjustments.—Now to adjust for super-tax 1920-21.

Rule 1.—Take the sums on which A originally paid income-tax 1919-20.

Schedule D business	£4000
Do. investments, War Loan	1000
By deduction, investments, X dividend	400
	<u>£5400</u>

Rule 2.—Deduct the substituted average adjustment 400
£5000

Rule 3.—The X dividend 1st June 1919 (within the tax year 1919-20) was £700, being £300 *more* than in June 1920. In order to reach a 'cash basis,' add this difference of 300
£5300

Rules 3 and 4.—The patent royalties fall to be deducted, but at the June 1918 figure, say £800, not the June 1920 £600 800
£4500

Rule 5.—The life assurance allowance is ignored.

Deduct the super-tax abatement	2000
And for 1919-20 super-tax is payable on	<u>£2500</u>

To reconcile—

Income-tax borne 1919-20 on	£3900
Super-tax assessment 1920-21	2500
Difference	<u>£1400</u>

Arising thus—

Super-tax abatement	£2000
Cash basis: increased deduction for patent royalties, £800 instead of £600, difference	200
Less	<u>£2200</u>
Cash basis: increase in X dividend	£300
Life assurance allowance ignored	500
	<u>800</u>

Accounting for the difference of £1400

Note.—In practice the assurance allowance from income-tax 1919–20 would have been allowed off the Schedule D assessment on the business. That does not affect the position, except that in stating the adjustments for super-tax you would either still start with £4000 as above (not £3500); or, if you started with £3500, you would add on the £500 as an adjustment under Rule No. 5.

At this stage it may be helpful to summarise and tabulate the position broadly thus:

What decides for *this* tax year—

- | | | |
|-----------------------------|---|--|
| 1. Liability to super-tax ? | { | <i>Last</i> year's modified net
income-tax income, and
<i>This</i> year's law. |
| 2. Amount super-taxable ? | | |
| 3. Rates of super-tax ? | | <i>This</i> year's law. |

Illustrations.—Last year's income £2500, this year's £2000; super-tax is chargeable this year, notwithstanding that incomes of £2500 escaped last year, and that incomes of £2000 escape this year.

Last year's income £2000, this year's £2100; super-tax is not chargeable this year, notwithstanding that any income over £2000 is chargeable this year.

CLASSIFICATION OF INCOME.

Following mainly the yellow Return form—

Business Income.—This includes all income from trade, profession, office, or employment. The amount to be entered is the sum in which you have been, or are liable to be, assessed to income-tax for the year ended 5th April *last*. Any assessment which has become final for income-tax purposes is conclusive for super-tax purposes also. No allowance or readjustment of that income is possible for super-tax unless it has first been passed for income-tax for the previous year. If allowance or readjustment on any head has been obtained for income-tax purposes for last year, 1919–20, it holds also as regards the statement of that income for the super-tax Return with which we are dealing, namely, 1920–21.

Partnership Profits.—These are only a special form of business income, but the specialties are important, and in some respects a little confusing, and we therefore deal fully with them.

In order to arrive at a partner's share of his firm's profits to be returned by him for assessment for super-tax for the year 1920-21, it is necessary first to ascertain *the firm's* income-tax income for the year 1919-20. To ascertain this, add together (1) the firm's income-tax assessments—Schedules B, D, and E for 1919-20 (see 'Business Income' above); (2) Schedule A assessments on premises owned and occupied by the firm; (3) rents drawn by the firm in 1919-20; (4) other investment income receivable (cash basis) by the firm in 1919-20—stated without deduction of income-tax; and, from the total, deduct all sums payable (cash basis) by the firm in 1919-20 for ground burdens, mortgage interest, other annual interest, royalties (patent or mineral), annuities, and all other items from which income-tax was deducted by the firm on making the payment.

The result gives the firm's modified net income-tax income for last year. Then the partner's share of that for this year's super-tax is obtained by applying to this result the rule of division of profits which held among the partners for *last* year.

ILLUSTRATION No. 1.

Take the firm's <i>gross</i> income-tax profits for last year, 1919-20	£20,600
Wear and tear	600
Firm's net income-tax profits for last year	£20,000
Partners' life assurance allowances for income-tax for last year—A £1000, B £600, C £400	2,000
Firm's net income-tax assessment for last year	£18,000

The rule of division *last* year was: A, interest on capital £1000; each £1000 salary; balance (£16,000) to A 50 per cent., B 30 per cent., C 20 per cent. The divisible sum is the £20,000, not the £18,000.

A, interest £1000, salary £1000, 50 per cent. of balance, £8000	£10,000
B, salary £1000, 30 per cent. of balance, £4800	5,800
C, salary £1000, 20 per cent. of balance, £3200	4,200
	<u>£20,000</u>

In their super-tax returns for 1919-20 the shares of firm's profits to be brought in are: A, £10,000; B, £5800; C, £4200.

The above assumes no loan interest payable and no other legal burdens. Take, therefore, another case:

ILLUSTRATION No. 2.

To ascertain A's share of the profits of his firm, A, B, & Co., for his super-tax Return 1919-20.

Profits of the firm as assessed to income-tax, Schedule D, for 1919-20	£12,000
Less wear and tear	1,000
	<u>£11,000</u>

Add net income-tax (Schedule A) assessment 1919-20 on
premises owned and occupied by the firm 500

Other income of the firm *receivable* in 1919-20 from—

Rents	£400
Dividends	500
Interest, &c.	600
Total	<u>1,500</u>
	£13,000

Deduct annual payments made out of profits to persons
other than partners *payable* in 1919-20 for—

(1) Ground rents	£100
(2) Annuities	1000
(3) Interest, &c., <i>exclusive of interest on</i> <i>partners' capital</i>	1900
Total deductions	<u>3,000</u>

Note.—There would probably be many other deductions, but we are here following an official form. Of course, in practice care will be taken to make all proper deductions; see p. 226.

Total statutory income of the firm for 1919-20	£10,000
Less salaries paid to partners for 1919-20	£2000
Interest on partners' capital for 1919-20	2000
	<u>4,000</u>
Balance proportionately divisible among the partners	£6,000

A's share (percentage and amount) of this balance of £6000 according to the basis of division of profits ruling for 1919-20, viz. 33½ per cent.		£2000
His interest on capital for 1919-20		nil
His salary for 1919-20		500
Amount to be returned by A as part of his super-taxable income for 1920-21 (subject to the free abatement of £2000)		£2500

Ownership of Land, Buildings, and other Real Estate.

—1. *Property Let.*—Income from property let to tenants may be returned either at the amount of the net assessment to income-tax Schedule A for last year, or on the basis of the gross rental for that year, less the deductions that are allowed in arriving at net assessment to income-tax Schedule A, including the one-eighth or one-sixth referred to in Chap. 6, as well as land-tax and tithe rent charge.

2. *Property in Personal Occupation.*—The return should be the amount of the net assessments to income-tax Schedule A for last year.

In both cases, if repayment of income-tax has been obtained for last year in respect of excess maintenance (p. 46), the amount of the additional expense upon which income-tax was repaid may be deducted either in the statement of income or as a charge on income in the lower part of page 3 of the Return.

Profit from Occupation of Land.—The sum to be inserted here is the amount of profit from this source finally adjusted for income-tax for last year. It may thus, in the case of farming, be on any one of three separate bases—namely, (1) Schedule B assessment; or (2) actual profit of last year if Schedule B was accepted, but an income-tax claim for short profits has been made and sustained; or (3) Schedule D assessment if the option to claim that form of income-tax assessment was exercised, and subject to any allowance or readjustment obtained for income-tax purposes as referred to above in the case of other business profits.

General Income from Investments.—Income of this

class requires to be treated differently according as it is taxed at the source or is not, or, in other words, according as it is received under deduction of tax on the one hand, or is received gross, so that you pay the income-tax on it by direct assessment, on the other hand.

1. *Taxed Income*.—This means income received under deduction of tax at the source. The point here is that, while this year's super-tax measure is last year's income, that income is to be arrived at on what is known as a 'cash basis.' This means that the test of whether an item is to be entered or is to be left out depends, not on whether it accrued during last year, but on whether it was 'receivable' last year. Thus in the super-tax Return 1920-21 a dividend received in May 1919 for the year to 31st March 1919 would be included. Interest on a mortgage for the half-year to 31st December 1918, which ought to have been received on that date, but which in fact was not received until June 1919, will be excluded. A dividend received in June 1920 for the year to 31st March 1920 will be excluded.

Items received 'free of tax,' as explained in Chap. 19, are to be treated as income taxed at the source.

In all cases what are to be entered are the gross amounts, and not the net amounts after income-tax is deducted. This holds in the case of items free of tax, in which case the true gross amount will be entered, as explained on p. 175, except that annuities free of tax will be entered at the actual amount only.

2. *Income received without Deduction of Tax*.—This is to be entered at the amount of the income-tax assessment for last year; and here it may be useful to note the position which arises with reference to income from certain war securities when these are not held in a bearer form. Income-tax is not deducted at the source, and from that it results that the basis of assessment for each year's income-tax is the amount of such income received in the

previous year. This holds with reference to all income of the kind now being dealt with, but these war securities bulk most largely now. It results that super-tax for 1920-21 is based upon this class of income received in 1918-19, but subjected to income-tax in 1919-20.

4 per cent. Tax-Compounded War Issues.—The income is liable to super-tax, and it has to be stated at the gross amount which, after deduction of income-tax at the full standard rate of last year, would leave the amount of income actually received.

Bonus Shares are not super-taxable.

Trust Income may be entered at the amount actually received by the super-taxed beneficiary in the previous year, plus the income-tax thereon as calculated for tax-free dividends, as shown on p. 175. Thus, if when income-tax was 6s. you received £300, this item would go in at £428, 11s. 6d. This method is very simple, and saves much trouble. But the case of annuities free of tax is exceptional, as stated above.

Wife's Income.—Deal with it as above just as though it were your own, but state that it is hers, and distinguish it. But see p. 229.

Foreign (including Indian and Colonial) Income.—Last year's income-tax assessments.

(War) Savings Certificates. }
Bursaries and Scholarships. } Exempt, and do not count.

DEDUCTIONS.

These include everything which is a *deduction* for income-tax, and a good many others. The list of deductions is much the same as under any income-tax statement for the purpose of ascertaining total income. That is to say, it includes items which are not deductible for income-tax assessment, as, for instance, ground burdens and mortgage interest. These are not deducted for income-tax assessment, because the tax-payer deducts the proper

proportion of tax when he pays these charges, and thus recoups himself; but there is no possibility of that in super-tax. Accordingly the deductions include:

1. *Ground burdens*, such as ground rents, feu-duties, ground annuals.
2. *Land-tax*.
3. *Tithe, teind, or stipend*.
4. *Rates*—drainage-rate and all other rates falling on the owner, so far as not given off in the Schedule A assessment.
5. Any allowance for excess maintenance which has been passed for income-tax.
6. *Interest*, whether on mortgages or other loans or items.
7. *Annuities*.
8. *Patent royalties*. These would not be allowed off the Schedule D income-tax assessment, because the payer deducts tax on payment.
9. *Mineral rents and royalties* paid, so far as not allowed off from trade profits in the Schedule D assessment.
10. *Wear and tear*. There is the special case of a lessor of machinery or plant being bound to maintain it. In that case he suffers deduction of income-tax on the gross rent by deduction by the tenant, but on a repayment claim he obtains an allowance for wear and tear. That allowance is a deduction for super-tax.
11. *Excess profits duty*, so far as not allowed off in the Schedule D assessment.
12. *Excess mineral rights duty*. This by concession, and a very valuable one it is where it applies.
13. *Crown servants abroad*—necessary expenses of offices as settled by the Treasury.
14. *Children's maintenance* under legal obligation (p. 188).
15. *Officers' uniforms*, but no doubt off in the assessment on the pay.
16. *Other annual charges*. Consider particularly all items paid by you under deduction of tax. That was

a good reason for non-deduction for income-tax, but just for that reason the items will probably be good deductions here.

Non-Deductions.—(1) Income-tax; (2) super-tax; (3) mineral rights duty.

Cash Basis.—This, which has been explained above with reference to the income side of the account, applies also to ‘any deductions allowable on account of any annual sums paid out of the property or profits.’

Practical Details in filling up the Return:

1. Detail investments taxed at the source, and all deductions.

2. It will probably be found better to annex separate schedules or lists under the different branches, and to fill in only the totals in the actual yellow form.

3. State expressly that income taxed at the source is entered ‘gross before deduction of income-tax.’

4. Where no income under any branch, say expressly none.’

5. Do not deduct the free £2000. That will be officially attended to.

6. Keep a full copy of the Return and of any lists attached.

ALLOWANCES AND ADJUSTMENTS.

No allowance or adjustment for diminution or loss can be given for super-tax unless it has first been obtained for income-tax. This refers to cases of—

1. Loss of rents and other similar claims (p. 46).

2. Short profits of farmers and occupying owners under Schedule B (p. 92).

3. Substituted average owing to war diminution (p. 134).

4. Actual profits instead of average in the same case, when the tax-payer was serving in the war (p. 134).

5. Actual profits instead of average in any year when

succession or change occurs, and three following years if there is diminution owing to a 'specific cause.'

6. Actual profits instead of average for first three years of a new business.

7. Actual total income from all sources when that was more than 10 per cent. less than the total income-tax assessments (p. 134).

The position, therefore, is that any of these applies to and reduces this year's super-tax if, but only if and when, it has first been obtained for last year's income-tax. Nos. 3, 4, and 7 were in force last year, though not this year, and therefore they may affect this year's super-tax assessment.

Discontinued Business.—There may be some difficulty in dealing with this case, stated on p. 57, for the income-tax adjustment dates back three years.

HUSBAND AND WIFE.

As for income-tax, so here, the incomes of husband and wife are massed for taxation purposes. If each has a steady income of £1050 there will be a super-tax assessment on £100, being the combined incomes, £2100, which is over the limit of £2000, less only one abatement of £2000. There may be separate assessments if either husband or wife so requests *before* 6th July in the year of assessment, or, as regards the assessment year in which the marriage takes place, before 6th July of the following (assessment) year. This, however, results in no saving of money, for the total amount payable shall not be less than if an application had not been made for separate assessments. The only result is to apportion the super-tax between the two in proportion to their respective incomes. But see No. 4 on p. 230.

This unification of incomes holds only so long as the spouses live together.

It must be remembered that, while we are dealing with this year's super-tax, it is last year's income with which we are concerned.

Illustrations.—The position is best shown by concrete instances.

1. Husband and wife have each a steady income of £2000, and marry on 6th April 1920. No super-tax is payable for 1920–21. The wife's income for last year was not her husband's, not even for tax purposes.

2. The marriage is in the middle of 1920–21, and the income of each £2000. The super-tax incomes are—(1) Wife's for 1920–21 is £2000, and free; (2) in 1921–22, £1000 (income of first half of 1920–21 up to the date of the marriage), and free. (3) Husband's in 1920–21, £2000, and free; (4) in 1921–22, £3000; (5) in subsequent years, £4000.

3. The incomes are—wife £3000, husband £1000, and marriage after two-thirds of 1920–21 have run. The super-tax incomes are—(1) Wife's for 1920–21, £3000, less abatement £2000; pays on £1000; (2) for 1921–22, £2000, and free. (3) Husband's for 1920–21, £1000, and free; (4) for 1920–21, £2000, and free; (5) in subsequent years, £4000.

4. The incomes are £4000 each, and the wife dies on 5th October 1920. The husband's super-tax income for 1920–21 is £8000, less abatement £2000; pays on £6000. But this should not be admitted without careful consideration. It may be that this is one case in which separate assessment on the wife might make a difference.

5. In the same case it is the husband who dies on 5th October 1920. The super-tax incomes are—(1) Husband's for 1920–21, £8000, less £2000; reckon the super-tax on £6000, but he pays only one-half of the super-tax so ascertained. (2) Wife's for 1920–21, nil; (3) for 1921–22, £2000 plus any jointure from her husband's estate so far as 'receivable' before 6th April 1921.

DEATH AND SUCCESSION.

Important specialties require consideration under these heads.

It is expressly enacted that, if the super-tax payer dies in the course of the year of assessment, the charge is limited to the share of the super-tax corresponding to the part of the year during which he survived. Suppose the super-tax year is 1920–21, and that he dies on 5th October 1920. If the full super-tax would have been £100, £50 is payable, for death occurred exactly half-way through the year of assessment. It will be observed that the rule is quite different from charging on only a proportion of last year's income corresponding to the part of this year during which the person has survived. If that were the rule, death in the middle of a tax year would totally avoid super-tax in all cases in which last year's income did not exceed £4000.

Illustrations.—1. If death occurs on 5th April 1920, there can be no super-tax due for 1920–21.

2. If a man or woman succeeds to an estate or income, it may be an annuity or anything else, yielding, say, £4000 a year, then if the succession is on 6th April 1920, and the successor dies on 5th April 1921 (and assuming no other possible super-tax liability), there is no super-tax at all due for any year by the person who has thus succeeded and died. There can be none in 1920–21, for the criterion is that person's 1919–20 income, and that, by the assumption, yields no super-tax. Neither can there be any for 1921–22, for the person is not in life in that tax year, and therefore not super- (or at all) taxable for that year.

3. If the succession had been on 5th October 1919, and the death on 5th October 1920, again there could be no super-tax for any year, but for different reasons. This introduces the 'broken period.' In 1920–21 the criterion is the 1919–20 income, which is (half a year) £2000, and

therefore immune. In 1921-22 there is no person to be super-taxed.

WAR SERVICE RELIEF.

In view of the fact that the assessment of super-tax is one year belated, it seems useful to note here that, during any year of assessment up to and including 1919-20, a measure of relief was given to those who served with the navy, army, or air force, or in work abroad of the Red Cross or St John Ambulance or similar body. The relief was that the total income of the year of assessment might be substituted for the total income of the previous year. If serving in 1918-19, you were entitled to take that year's income for that year's assessment, whether you were serving in the previous year or not.

FREE OF SUPER-TAX.

There is nothing illegal in a condition that the payer of, say, an annuity shall relieve the payee of super-tax, whether it be a case of legacy or even (differing in this respect from income-tax) contract. It is a question of the effect of the language used in each case. The following may be instanced: (1) The accumulated interest on War Savings Certificates is free. (2) The 4 per cent. tax-compounded war issues are not, and the interest is stated for super-tax at the gross amount, which, less income-tax, would leave the net interest actually received. (3) Annuities free of income-tax are not free of super-tax, but they are stated for super-tax at the net amount only. (4) Salaries paid free of income-tax are stated for super-tax at the full amount which the employee receives, including the income-tax. (5) Especially in the case of annuities (both bequests and contracts) questions may well arise when, for example, the words are (*a*) 'free of all taxes,' or (*b*) 'free of income-tax and all other deductions,'

or even (c) 'free of all deductions except income-tax.' In such cases the annuitant's rights require careful consideration. It would make no difference that the annuity originated at a time when super-tax was unknown. When an annuity is free of super-tax, the payer of the annuity must bear the same proportion of the annuitant's total super-tax as the annuity plus income-tax bears to the annuitant's total income.

THE YEAR.

Super-tax is due in one sum on 1st January in the year of assessment.

Strictly the year for super-tax, as for income-tax, is 6th April to 5th April. That, however, is not rigidly adhered to or enforced, provided that a uniform system is followed, and that no unfairness is imported. Thus it is common enough to be allowed to settle on the income of the calendar year. That would mean that the income to be returned for super-tax for 1920-21 might be allowed to be income of the calendar year 1st January to 31st December 1919. Again, when the super-tax Return includes a share of a firm's profits, the year will, as regards that item, be the firm's accounting year which corresponds to the income-tax year ending 5th April 1920. Finally, in this way it may come about that a super-tax Return for 1920-21 is based, in its different parts, on different years. Thus the super-tax payer may be a partner of a firm, have investments of his own outside the firm, and his wife may receive an income through trustees. In a case like that it may result that his super-tax Return for, say, 1920-21 will be based, in the case of (1) his share of firm's profits, on the firm's financial year which ended 31st December 1919, that in turn being based on the average of the three preceding years; (2) income from his own investments, on the year which ended 5th April 1920; (3) on his wife's trust income, on the trustees' financial year which ended

31st January 1920. These variations have no effect on the due date of payment of the super-tax, which for the year 1920-21 remains 1st January 1921.

MACHINERY OF ASSESSMENT.

There is no collection 'at the source.' It is all by direct assessments, and these are wholly under the charge of the Special Commissioners.

It is the duty of every one liable to super-tax to intimate that fact to the Special Commissioners before 30th September in the year for which he is liable. Failure entails a heavy penalty.

Every person who is served with a schedule is bound to make a return of his whole income, whether he is, or is not, chargeable with super-tax. Again there is a heavy penalty for failure.

Assessments may be amended, or assessments or additional assessments imposed, any time within three years of the end of the year of assessment. That gives a time-limit of 5th April 1924 for the year 1920-21 calculated upon the 1919-20 income.

Appeals may be taken to the Special Commissioners and, on points of law, to the law courts.

All communications to be addressed to the Clerk to the Special Commissioners, Windsor House, 83 Kingsway, London, W.C.2.

See Chap. 18 for Dominion super-tax relief.

AMOUNT OF SUPER-TAX ON VARIOUS INCOMES.

Income.	Super-Tax.		Income.	Super-Tax.	
	1918-20.	1920-21.		1918-20.	1920-21.
£2100	Nil.	£7 10 0	£6100	£455 0 0	£557 10 0
2200	Nil.	15 0 0	6200	472 10 0	577 10 0
2300	Nil.	22 10 0	6300	490 0 0	597 10 0
2400	Nil.	30 0 0	6400	507 10 0	617 10 0
2500	Nil.	37 10 0	6500	525 0 0	637 10 0
2600	£32 10 0	47 10 0	6600	542 10 0	657 10 0
2700	40 0 0	57 10 0	6700	560 0 0	677 10 0
2800	47 10 0	67 10 0	6800	577 10 0	697 10 0
2900	55 0 0	77 10 0	6900	595 0 0	717 10 0
3000	62 10 0	87 10 0	7000	612 10 0	737 10 0
3100	72 10 0	100 0 0	7100	630 0 0	760 0 0
3200	82 10 0	112 10 0	7200	647 10 0	782 10 0
3300	92 10 0	125 0 0	7300	665 0 0	805 0 0
3400	102 10 0	137 10 0	7400	682 10 0	827 10 0
3500	112 10 0	150 0 0	7500	700 0 0	850 0 0
3600	122 10 0	162 10 0	7600	717 10 0	872 10 0
3700	132 10 0	175 0 0	7700	735 0 0	895 0 0
3800	142 10 0	187 10 0	7800	752 10 0	917 10 0
3900	152 10 0	200 0 0	7900	770 0 0	940 0 0
4000	162 10 0	212 10 0	8000	787 10 0	962 10 0
4100	175 0 0	227 10 0	8100	807 10 0	987 10 0
4200	187 10 0	242 10 0	8200	827 10 0	1012 10 0
4300	200 0 0	257 10 0	8300	847 10 0	1037 10 0
4400	212 10 0	272 10 0	8400	867 10 0	1062 10 0
4500	225 0 0	287 10 0	8500	887 10 0	1087 10 0
4600	237 10 0	302 10 0	8600	907 10 0	1112 10 0
4700	250 0 0	317 10 0	8700	927 10 0	1137 10 0
4800	262 10 0	332 10 0	8800	947 10 0	1162 10 0
4900	275 0 0	347 10 0	8900	967 10 0	1187 10 0
5000	287 10 0	362 10 0	9000	987 10 0	1212 10 0
5100	302 10 0	380 0 0	9100	1007 10 0	1237 10 0
5200	317 10 0	397 10 0	9200	1027 10 0	1262 10 0
5300	332 10 0	415 0 0	9300	1047 10 0	1287 10 0
5400	347 10 0	432 10 0	9400	1067 10 0	1312 10 0
5500	362 10 0	450 0 0	9500	1087 10 0	1337 10 0
5600	377 10 0	467 10 0	9600	1107 10 0	1362 10 0
5700	392 10 0	485 0 0	9700	1127 10 0	1387 10 0
5800	407 10 0	502 10 0	9800	1147 10 0	1412 10 0
5900	422 10 0	520 0 0	9900	1167 10 0	1437 10 0
6000	437 10 0	537 10 0	10000	1187 10 0	1462 10 0

CHAPTER 25.

SPECIMEN RETURNS AND CLAIMS.

IN this chapter we give and explain forms of Returns and Claims.

I. RETURN OF INCOME.

Forms for returns were issued by the Department for 1920-21 before the passing of the Finance Act 1920, and accordingly these forms are apt to be very misleading in many cases, for they are based upon the previous rules. In particular, they are expressed as though the right to the family allowances were dependent on the total income not exceeding a certain sum, in most cases £800, whereas the fact is that these income-limits have been abolished. Supplementary forms may be issued; but in any case taxpayers should remember what the new rules are, and should act upon these, and not upon the contrary statements contained in the forms referred to. The new rules will be found fully stated in the various chapters of this book.

No. 1. Individual Return.

By this we mean the case of a man (or woman) who carries on a trade, business, or profession, not in partnership, but alone. The official form is No. 11. It is divided into sections, distinguished by the letters A, B, C, &c.

Section C.

SOURCE OF INCOME.	Amount.
From trade, profession, employment, or vocation, viz. : The trade, profession, or business of ironmonger carried on by me at (place or places), on the average of three years' accounts.	£325
From interest of money not taxed by deduction and from discounts (last year's figures) : Bank interest £7 Dividend on 5 per cent. War Loan 25	32
From colonial and foreign securities (where United Kingdom tax not deducted). None.	
From colonial and foreign possessions. None.	
From property or profits not falling under any of the foregoing heads, and not otherwise charged. None.	
Total	£357
Less amount claimed for wear and tear of machinery and plant, which should <i>not</i> be deducted in arriving at the above figures	25
	£332

General Declaration.—I declare that in the foregoing statement I have given a full and true return of the whole of the income chargeable upon me under Schedule D, estimated to the best of my judgment and belief, according to the provisions of the Income-Tax Acts. I desire to be assessed by the District (or Special) Commissioners. Given under my hand this day of 19....

Signature, _____

Business address, _____

Private residence, _____

Section D.

NO. 1. PARTICULARS OF INCOME.	Amount.
(a) From trade, &c. As per Section C (£325, less £25)	£300
(b) From any public office, &c. None.	
(c) From property, including the annual value of the property I own and occupy. House owned and occupied by me (give address) . . .	40
(d) From the occupation of land. None.	
(e) From bank interest, Exchequer Bond interest, and from annuities, dividends, discount on Treasury Bills, or other income, not already entered on this page (<i>giving full particulars, and stating whether sub- jected to United Kingdom income-tax before receipt or not</i>). Bank interest untaxed £7 Dividend on 5 per cent. War Loan untaxed . . . 25 Interest and dividends taxed before receipt (give this year's details) 65	97
(f) Wife's income, all taxed before receipt (give details) . Total	85 £522
NO. 2. PARTICULARS OF CHARGES ON INCOME.	
Ground rent (or feu-duty or other ground burden) on my house payable to (name and address of creditor) £6 Mortgage (or bond). £300 at 5 per cent. from (creditor) on my house . . 15	
Total charges . . .	21
Total amount of income from all sources, less charges .	£501

I declare that the above statement contains a full, just, and true account and return of the whole of my income from every source whatsoever for the year ending the 5th day of April 19 , estimated according to the provisions of the Income-Tax Acts, and I therefore claim the

relief to which I am entitled in respect of such income. Given under my hand this day of 19....

Signature, _____

Private residence, _____

Section E.—Claim for Allowance in respect of Life Assurance Premiums.

State whether the Assurance or Annuity is on the Life of 'Self' or of 'Wife.'	Company.	Date of Policy.	Capital Sum payable at Death, exclusive of any Additional Benefit by way of Bonus or otherwise.	Premiums.
Self.	X Company.	State the dates.	£1000	£25
Self.	Y Company.		500	19
			Total. .	£44

Signature, _____

Section G.—Claim for Relief in respect of Children.

Name of each Child or Step-child under the Age of 16 Years on 6th April 1920 ; or over that Age, and receiving Full-Time Instruction at an Educational Establishment.		Date of Birth.			Place of Birth.	Name and Address of the Educational Establishment in the case of Children over the Age of 16 Years on the 6th April 1920.
Surname.	Full Christian Names.	Day.	Month.	Year.		
Smith .	Thomas .	1st	January	1905		
Smith .	James .	30th	June .	1908		

State claim, if any, for allowances for housekeeper and incapacitated dependent relatives.

Assessment and Tax.—Assuming the above return to be accepted by the Department, the net sum to be assessed under Schedule D will be nil.

Trade profit, less wear and tear	£300	
Less earned income relief	30	
	<u>£270</u>	
Bank interest	7	
War Loan dividend	25	
	<u>£302</u>	
Deduct—		
1. Marriage allowance	£225	
2. Children	63	
3. Life assurance	44	332
Minus quantity		<u>£30</u>

NOTES.—1. If no allowance or relief other than wear and tear and earned income relief is claimed, Section C will alone be filled up.

2. The items disclosed in Section D, which have been already taxed, are set out in order to show total income, not that they may be subjected to further tax. The two untaxed items in that section will be brought into account as shown above.

3. *Rate Relief.*—The investment income otherwise taxed is—house £40, interests and dividends £65, and wife's income £85—in all, £190, less burdens £21, net £169. This has borne 6s. The tax-payer is thus entitled to repayment of (1) 6s. on the above £30 of allowances unsatisfied, and (2) 3s. per £ on the balance of £139. These together amount to £29, 17s. This may be obtained on a repayment claim. In future the assessment on the house may be restricted to the £21 of burdens.

4. *Final Result.*—The total tax actually borne is £20, 17s., thus:

Paid by deduction on taxed unearned income, £40, £65, and £85—in all, £190 at 6s. per £ £57 0

Recovered from—

Creditors in the legal burdens, 6s. per £ on £21 £6 6

Inland Revenue 29 17 36 3

Net payment £20 17

Thus—

Income after allowing earned income relief and wear and tear as above, £302 and £190 £492

Less legal burdens 21

£471

Allowances as above 332

Taxable income £139

at 3s. £20 17

No. 2. Very Simple Firm Case.

Section A.—Statement of Untaxed Income for Assessment under Schedule D.

SOURCE OF INCOME.	Amount.		
	£	s.	d.
From trade, profession, employment, or vocation, viz. :			
The trade of bookseller carried on by Smith & Son at 10 Exchange Street, Hull.			
Annual profits on the average of the three preceding years	1100	0	0
Total	1100	0	0

General Declaration.—I declare that in the foregoing statement I have given a full and true return of the whole of the income chargeable upon my firm of Smith & Son under Schedule D, estimated to the best of my judgment and belief, according to the provisions of the Income-Tax Acts. We desire to be assessed by the District (or Special) Commissioners. Given under my hand (date).

Signature, John Smith,

Business address, _____
Precedent Acting Partner.

Section B.

1. Full description or style of the firm Smith & Son.

2. Particulars of annuities, interest, &c.

None.

3. Particulars of partners' shares.

Names.	Residences.	Sleeping or Acting.	Amount.	Basis.
John Smith . .		Acting .	£660	3ths.
John Smith, jr. .		Acting .	440	
		Total .	£1100	

I declare that I am the precedent acting partner of the firm above described, and that the foregoing particulars are in every respect fully and truly stated, according to the best of my judgment and belief.

JOHN SMITH.

The individual partners will also each fill up a form, No. 11, in the same manner as is shown on p. 237. It is here assumed that neither of them has any income other than his share in the firm; that the senior pays £94 assurance premiums, and the junior £16; that both are married; that the junior has two children under sixteen, or full-time pupils or students, and the senior none, but maintains two dependent relatives.

Tax.—1. John Smith, senior. His share of the firm's assessment is £660, less earned income relief, £66 £594

Deduct—

Marriage allowance	£225	
Dependants	50	
Assurance	94	369

Leaves, chargeable at 3s. £225

2. John Smith, junior. His share is £440, less earned income relief, £44 £396

Deduct—

Marriage allowance	£225	
Children	63	
Assurance	16	304

Leaves, chargeable at 3s. £92

The firm will pay on £317 at 3s., which is £47, 11s.; to be borne by Smith, senior, to the extent of £33, 15s., and by Smith, junior, to the extent of £13, 16s.

No. 3. A More Complicated Firm Case.

Section A.—Statement of Untaxed Income for Assessment under Schedule D.

SOURCE OF INCOME.	Amount.
From trade, profession, employment, or vocation, viz. : The trade, profession, or business of ironmonger (<i>or as the case may be</i>) carried on by the firm of A, B, & Co. at 1 King Street, Sheffield.	
Annual profits on the average of the preceding three years	£3330
Total	£3330
Less amount claimed for wear and tear of machinery and plant which has not been deducted in arriving at the above figures	130
Net total	£3200

General Declaration.—I declare that in the foregoing statement I have given a full and true return of the whole of the income chargeable upon my firm of A, B, & Co. under Schedule D, estimated to the best of my judgment and belief, according to the provisions of the Income-Tax Acts. We desire to be assessed by the District Commissioners (*or the Special Commissioners*).

Given under my hand this day of 19....

Signature, Thomas Jones,

Business address, 1 King Street, Sheffield,

Precedent Acting Partner.

Section B.—Declaration by the Precedent Acting Partner.

1. Full description or style of the firm A, B, & Co.
2. Particulars of all annuities, interest on loans, and other annual charges payable by the firm.

Names of Persons to whom Payable.	Addressees.	Amount Payable in the Current Year.
Mrs Mary Smith	17 The Crescent, Bath.	
	Annuity	£150
The X Investment Company	10 Billiter Street, London.	
	Interest on loan of £800	50
	Total	£200

3. Particulars of the share of each partner in the net total profits of the firm, entered on page 2 (i.e. Section A).

Names of Partners at 6th April 1920.	Residences of the Partners.	Sleeping or Acting.	Basis of Distribution.	Amount of each Partner's Share of the Profits.
Thomas Jones	State them	Acting	One-half	£1500
William Brown		Acting	One-fourth . . .	750
George Robinson . . .		Acting	One-fourth . . .	750
			Total	£3000

I declare that I am the precedent acting partner of the firm above described, and that the foregoing particulars are in every respect fully and truly stated, according to the best of my judgment and belief.

THOMAS JONES.

NOTES.—The difficulties consist in fixing (1) the amount of profits, the £3330 above; (2) the allowance for wear and tear, if any; and (3) the shares in which the partners ought to bear the tax. This last cannot be decided without the separate returns of the individual partners, which accordingly follow on p. 248. Here we note the following matters:

1. *Profits, £3330.*—This is fixed on the average of three years preceding. Better expressly say so. It is after

all deductions, as dealt with on pp. 61–65. These deductions do *not*, in any case, include (1) wear and tear, or (2) the legal burdens, £200, above, or (3) earned income relief; nor would they include (4) interest on partners' capital or (5) partners' salaries, though these items were entered in the accounts and actually paid (see p. 62).

2. *Wear and Tear*.—See p. 65.

3. *District or Special Commissioners*.—See p. 69.

4. *Sleeping or Acting*.—The object is to know which partner, if any, is to be assessed without the earned income relief. No sleeping partner gets the benefit of the earned income relief (see p. 15). If any one other than the senior partner signs the return as the 'precedent acting partner,' that may mean an admission that the senior is a sleeping partner.

5. *Basis of Distribution*.—According to the partnership deed or agreement, whether in writing or not. It is here assumed that there is no complication from interest on partners' capital or partners' salaries.

6. *Each Partner's Share*.—These are 'statutory' figures, not corresponding to any actual reality. They are arrived at thus:

Statutory profits, less wear and tear	.	.	.	£3200
Deduct legal burdens	.	.	.	200
				<hr/> £3000
Jones, half	.	.	.	£1500
Brown, quarter	.	.	.	750
Robinson, quarter	.	.	.	<hr/> 750
				3000

Thus the total of the amounts under head (2), £200, and head (3), £3000, of Section B must agree with the net total in Section A, £3200.

No. 4. Alternative Forms of Section B.

1. INTEREST ON CAPITAL.

If the partners' shares of capital are the same as their shares of profits, the matter of interest on capital is of no real, though of some book-keeping, importance. But assume that, in the above firm of A, B, & Co., Jones supplies all the capital, £4000, is entitled to 5 per cent. interest on it, and the shares of profits are as above stated. In that case the fourth and fifth columns in the 'Particulars' on p. 244 would stand thus:

Basis.		Amount of Shares.	
Out of the	£3000	Jones . .	£1600
Jones receives interest on capital, £4000, at 5 per cent. . .	200	Brown . .	700
The balance of	£2800	Robinson . .	700
goes to Jones, $\frac{1}{2}$. .	£1400		
Brown, $\frac{1}{4}$	700		
Robinson, $\frac{1}{4}$	700	Total. .	<u>£3000</u>
	<u>2800</u>		

2. INTEREST ON CAPITAL AND SALARIES.

Partners' salaries are intended so far to equalise dis-
proportion of shares and provide a minimum to the junior
partners. Assume that in the above firm of A, B, & Co.
the position is as last stated, with the addition that each
partner has a salary of £200. The 'Particulars' would
stand thus:

Name of the Partners at 6th April 1920.	Residence of each Partner.	Whether 'Sleeping' or 'Acting' Partner.	Basis of Distribution of Profits under Partnership at 6th April 1920.				Amount of each Partner's Share of the Profits.
			Salary (if any).	Interest on Capital (if any).		Basis of Distribution of Residue of Profits.	
				Amount of Capital.	Rate of Interest per cent.		
Thomas Jones .	State them.	Acting.	£200	£4000	5	One-half.	Salary . £200 Interest . 200 Half-balance . 1100 £1500
William Brown .		Acting.	£200			One-fourth.	Salary . £200 Quarter-balance 550 £750
George Robinson .		Acting.	£200			One-fourth.	Salary . £200 Quarter-balance 550 £750

No. 5. Partners' Individual Returns.

For the partners' individual returns on Form No. 11 the firm's return is adopted so far as it goes—namely, it supplies the individual partner with the amount of one item of his income, his share of the firm's profits. He adds all his other income, if any; also his wife's income. He also gives all legal burdens on his individual income. The result then is his statutory income for the year.

We shall take the first case of distribution of the firm's profits as stated on p. 243.

Section D.—Jones's Individual Return.

NO. 1. PARTICULARS OF INCOME.	Amount.
(a) From trade, &c. My share of profits of A, B, & Co., ironmongers (address)	£1500
(b) From any public office, &c. None.	
(c) From property. Annual value of house owned and occupied by me (address)	80
(d) From occupation of land. None.	
(e) From bank and other interest, dividends, &c. £2000 5 per cent. War Loan stock (last year's figure) . Taxed income from investments (give details) . .	100 60
(f) Wife's income, all taxed before receipt (give details) .	425
Total	£2165

Total—brought forward . . . £2165

No. 2. PARTICULARS OF CHARGES ON INCOME.

Nature.	Creditor.	Annual Amount.
Ground rent	(Name) .	£10
Interest on mortgage, £500 at 5 per cent.	(") .	25
Bank interest	(") .	50
Total charges		85
Total amount of income from all sources, less charges		£2080
Life premiums £150.		

Brown's Individual Return.

(a) From trade, &c.	£750 0
(b) None.	
(c) None.	
(d) None.	
(e) £500 5 per cent. War Loan (last year's figure)	25 0
Bank interest (last year's figure)	3 10
Taxed income from investments (give details)	4 10
(f) Wife's income.	
None.	
Total	£783 0

Life premiums £35; wife; and three children under sixteen, or whole-time pupils or students.

Robinson's Return.

He has no income except his share of the firm's profits—£750; is unmarried; and is insured for £1000 at a premium of £30.

Assessment.—Note that the object is to fix the amount of tax to be paid by the firm. But the firm is just the partners, and the result cannot be arrived at without having regard to the tax position of each partner. Not only so, but incidentally the tax on their *other* income (including their wives' incomes) will be dealt with. But, first, as to the firm's assessment. If we assume that the return (p. 243) is accepted, the *firm's* assessment, after deducting £130 for wear and tear, will be £3200.

Tax.—1. Jones. His allowances are :

	Allowances.	Rate.	Tax.
Earned income relief	£150	6s.	£45 0
Marriage	225	6s.	67 10
Rate relief	225	3s.	33 15
Life assurance. The policies are assumed to have been effected on or before 22nd June 1916 ; and so, as Jones's income exceeds £2000, the rate of relief is 6s.	150	6s.	45 0
			<u>£191 5</u>

Tax at 6s. on his whole share of the firm's profits, £1500, is	£450 0
Less his allowances	191 5
Jones's tax on share of firm's profits.	<u>£258 15</u>

2. Brown. His allowances are :

	Allowances.	Rate.	Tax.
Earned income relief	£75	6s	£22 10
Marriage	225	6s.	67 10
Three children	90	6s.	27 0
Rate relief	225	3s.	33 15
Life assurance. Irrespective of the date of the policy the relief is at 3s. only, for the income does not exceed £1000.	35	3s.	5 5
			<u>£156 0</u>

Tax at 6s. on his whole share of the firm's profits, £750, is	£225 0
Less his allowances	156 0
Brown's tax on share of firm's profits	<u>£69 0</u>

3. Robinson. His allowances are :

	Allowances.	Rate.	Tax.
Earned income relief	£75	6s.	£22 10
Personal	135	6s.	40 10
Rate relief	225	3s.	33 15
Life assurance	30	3s.	4 10
			<u>£101 5</u>

Tax at 6s. on his whole share of the firm's profits, £750, is	£225 0
Less his allowances	101 5
Robinson's tax on share of firm's profits	<u>£123 15</u>

The tax to be charged to the firm is arrived at as follows :

1. Tax on legal burdens, £200 at 6s.	£60 0
2. Jones, } as above {	258 15
3. Brown, }	69 0
4. Robinson, }	123 15
	<u>£511 10</u>

Apportionment.—If the tax were simply debited in the firm's books as an expense like, say, rent, the result would be right enough as regards the £60; but as to the balance of £451, 10s., it would be seriously wrong. The collection is half-yearly, but the papers make it quite clear how much of each instalment is attributable to each partner. The correct method is for the firm to pay the tax, and on the same day on which each instalment is paid each partner should give the firm his private cheque for his proportion of the £451, 10s. included in that instalment. In this way Jones's two cheques will amount to £258, 15s., Brown's to £69, and Robinson's to £123, 15s. These, with the £60 deducted from the creditors in the legal burdens, provide the total sum required.

Other Results.—1. *Jones.* He will be assessed personally, at 6s. per £, on—

(1) War stock dividend	£100
Less bank interest	50
	<u>50</u>
(2) House	80
	<u>£130</u>

In the case of the house, he recovers tax at 6s. on £35 of legal burdens when he makes these payments.

2. *Brown.* He will be assessed personally, at 6s., on the £25 of war loan interest and £3, 10s. of bank interest received.

3. *Robinson,* having no income outside the firm, pays no other tax.

No. 6. Firm's Taxed Income and Legal Burdens.

These matters are a little complicated, but they can, we think, be clearly and briefly stated. Taxed income, being already taxed, is not to be taxed over again. On the other hand, tax deducted by the firm on paying ground burdens, interest, or annuities is a debt for which the firm is accountable to the Inland Revenue. We shall assume a 'statutory' trading profit of £1200, and two partners equally interested, and with no other income except their halves of that profit, and of the firm's taxed income, if any.

The above £1200 is in the following illustrations always additional to the firm's taxed income, if any, but before deduction of (1) the legal burdens, if any, and (2) earned income relief.

ILLUSTRATION No. 1.

The firm receives £100 taxed income, but pays no legal burdens. The firm's return shows the £1200 only. Each partner in his individual return enters in Section D his share of firm's (1) trading profit, £600, and (2) taxed income, £50—together, £650. The firm is taxed under Schedule D on £1200, less partners' allowances, including earned income relief, £60 each.

ILLUSTRATION No. 2.

The firm has no taxed income, but pays legal burdens, £100, under deduction of 6s. tax. The firm's return shows £1200 in Section A, and the £100 deduction in Section B, where each partner's share is stated as £550, which is also the figure shown in each partner's individual return. The firm is taxed under Schedule D on £1200, less partners' allowances, including earned income relief, £55 each; but, whatever the taxable balance, the rate is 6s. per £ on £100 of it, because that rate was deducted by the firm on paying the legal burdens.

ILLUSTRATION No. 3.

The firm receives £100 taxed income, and pays legal burdens, £100. The firm's return shows £1200 in Section A, and the £100 of charges in Section B. The partners' individual returns show £600 each. The firm is taxed on £1200, less partners' allowances, including earned income relief, £60 each. When, as here, the taxed income and the legal burdens are of the same amount, they cancel each other,

ILLUSTRATION No. 4.

The firm receives £200 taxed income, and pays legal burdens, £100. The firm's return shows £1200 in Section A, and the £100 in Section B. The partners' individual returns show—

Share of my firm's trading (or business) profit	. . .	£600
Share of firm's taxed income	. . . . .	£100
Less share of firm's legal burdens	. . . . .	50
		<u>50</u>
		£650

The firm is taxed under Schedule D on £1200, less partners' allowances, including earned income relief, £60 each. When, as here, the taxed income exceeds the legal burdens, the latter cancel the former, *pro tanto*, for tax purposes.

ILLUSTRATION No. 5.

The firm receives £100 taxed income, and pays, say, an annuity of £200. The firm's return shows £1200 in Section A, and the £200 in Section B. The partners' individual returns show—

My share of firm's trading (or business) profits	. . .	£600
Less my share of excess of burdens, £200, over taxed income, £100—excess, £100	. . . . .	50
		<u>50</u>
		£550

The firm is taxed under Schedule D on £1200, less partners' allowances, including earned income relief, £55 each; but whatever the taxable balance comes out at, £100 of it is charged at the 6s. rate, because that rate was deducted by the firm from the annuitant. When, as here, the burdens exceed the taxed income, the latter, *pro tanto*, cancels the former for tax purposes.

Business Premises, owned and occupied by a firm or by a sole trader or business man, are a handy and important example of the foregoing. Thus—

1. Premises assessed Schedule A at £100. (Here and in the following examples this £100 is the *net* assessment; and that being so, owner's rates, if any, and repairs may be charged as business expenses.) No ground burden; no mortgage (or bond), and no other legal burden such as annuity. Income-tax Schedule A £30 is paid, being 6s. per £. The £100 is taxed income, and is excluded from the income side of the firm's adjusted account for income-tax purposes because already taxed. It figures, however, on the outgoings side as the equivalent of rent. Each

partner brings in his share of the £100 taxed income in his individual return, Section D, not to be again taxed, but to show his total income. Any relief to which he is entitled on his share of this £100 will be given either in the Schedule D assessment on the business, or by modification of Schedule A rate, or, failing these, then by repayment. This is Illustration No. 1 on p. 252.

2. Premises assessed Schedule A at £100; ground rent and mortgage interest, £100. Income-tax Schedule A is paid, £30; and £30 is deducted on paying the ground rent and interest. The firm's return shows the paid £100 in Section B. The premises £100 appears as rent on the outgoings side of the firm's adjusted account for tax purposes, but not on the income side, for it is already taxed. The partners in their individual returns ignore both sums of £100, for these cancel out. This is Illustration No. 3 on p. 252.

3. Premises assessed Schedule A at £200; ground rent and mortgage interest, £100. Income-tax Schedule A is paid, £60; and £30 is deducted on paying the ground rent and interest. The firm's return shows the £100 in Section B. The premises £200 appears on the outgoings side, but not on the income side, of the firm's account adjusted for tax purposes. The partners in their individual returns include in Section D their shares of the excess, namely, £100, of the premises £200 (taxed income) over the legal burdens, £100. Thus two partners, equally interested, would each put down £50 on this head. Any relief which is due will be obtained as shown in paragraph 1 above. This is Illustration No. 4 on p. 253.

4. Premises assessed Schedule A at £100; ground rent and mortgage (or bond) interest, and possibly an annuity, £200. Income-tax Schedule A is paid, £30; and £60 is

deducted on paying the £200. The firm's return shows the £200. The £100 appears on the outgoings, but not on the income, side of the firm's account adjusted for tax purposes. The partners in their individual returns *deduct*, from their proper shares of the firm's trading profit, their proper shares of the excess, namely, £100, of the legal burdens, £200, over the premises £100 (taxed income). Of the firm's Schedule D assessment £100 is taxed at 6s. This is Illustration No. 5 on p. 253.

NOTE.—When the property is a mill, factory, or similar premises, see p. 61.

No. 7. The Incidence of the Earned Income Relief.

In the foregoing illustrations it has been shown how the allowance of the one-tenth from earned income is affected by the existence of (1) legal burdens in excess of investment income, if any, of the firm, and (2) a wear and tear allowance. But it has up to this point always been assumed that the restriction of the earned income relief to £200 does not operate. It must, however, be remembered that the earned income relief is given to individuals. Thus, assume average profits £4000 after any wear and tear allowance and legal burdens are deducted, and take the following different cases :

1. A sole trader. The relief is £200 only.
2. Two partners equally interested. The relief is £200 each, or £400 in all.
3. Two partners, one entitled to three-fourths, and the other to one-fourth. The relief is £300, being £200 (the maximum) to the senior partner and £100 (one-tenth of £1000) to the junior.
4. Two partners—A, entitled to 5 per cent. interest on £4000 of capital (that interest not being deducted in arriving at the £4000 profit) and a salary of £400; and B, entitled to a salary of £400; and the balance then going

two-thirds to A and one-third to B. This gives A £200 interest, £400 salary, and £2000—£2600; and B, £400 salary and £1000—£1400. The earned income relief is £340, being £200 to A and £140 to B.

Then the same individual may be a partner in two firms, and his share of profits from the one may be £2000, and from the other £1000. This has no effect in the way of expanding the £200 limit. Altogether his earned income relief will be £200 only, and it may be given wholly from the assessment on the firm where his profits are £2000, or partly from the assessments on each firm.

No. 8. Weekly Wage-Earner—A very Simple Case.

STATEMENT OF INCOME.

Income from Wages.	Wages.	Particulars of Expenses (if any) incurred exclusively for the purposes of the Employment, also Boots and Clothing, and claimed as a Deduction from Gross Wages.
For quarter ending 5th July 19....	£55	

Income from any pension receivable by you.
None.

Income from any property you own.
None.

Income from any dividends and interest you receive, including share interest or deposit interest from Co-operative Societies.
None.

Income from any source not named above, including wife's income.
None.

Deductions :
Ground burden.
Interest on loans.
None.

Life premiums.
None.

If you contribute to a Trade Union, and any portion of your contributions is allocated to **Superannuation Benefits**, give the following particulars :

Name of Trade Union.	Full Contribution for the Year.	Portion allocated to Superannuation Benefits.
Smelters' Union (or otherwise)	£5	£2

Children, including step-children and adopted children, and all other family allowances as detailed on pp. 110-111.

None.

Declaration.—I declare that all the particulars given by me in this form are correctly stated to the best of my knowledge and belief. Given under my hand, this day of 19....

Signature (in full), _____

Private address, _____

Assessment.

Wages for quarter ending 5th July 19....	.	.	.	.	.	.	£55
Deductions allowed :							
Earned income relief	.	.	.	.	.	£5	10
Personal allowance (unmarried)	.	.	.	.	.	33	15
Life assurance, &c.	.	.	.	.	.	0	10
One dependent relative	.	.	.	.	.	6	5
							46
Net assessment for quarter	.	.	.	.	.	£9	
Tax thereon at 3s. per £, £1, 7s							

No. 9. Weekly Wage-Earner—A more Complicated Case.

STATEMENT OF INCOME.¹

Income from Wages.	Wages.	Particulars of Expenses ² (if any) incurred exclusively for the purposes of the Employment, and claimed as a Deduction from Gross Wages.
For quarter ending 5th October 19.... .	£131	Tools . . . £2 5 Explosives . . . 5 3 Travelling from .....to..... . 2 12 Boots and cloth- ing . . . 1 0 <div style="text-align: right;">£11 0</div>

Income from any pension received by you.
None.

Income from any property you own (*full year's income to be stated*).
House owned and occupied by me at (address) £20³

Income from any dividends and interest you receive, including share interest or deposit interest from Co-operative Societies⁴ (*full year's income to be stated*).

The following all taxed before receipt (give details) £10

Income from any source not named above (*full year's income to be stated, and income, if any, of wife, if any, to be included*).
None.

Deductions⁵ :

Ground rent, feu-duty, or other ground burden on my house . . £3
Interest on loan, £200 at 6 per cent., from John Smith . . . 12

Life premiums.

Name of Insurance Company or Friendly Society.	Yearly Premium.	Whether on Life of 'Self' or of 'Wife.
X Company	£10	Self.

If you contribute to a Trade Union, and any portion of your contributions is allocated to **Superannuation Benefits**, give the following particulars :

Name of Trade Union.	Full Contribution for the Year.	Portion allocated to Superannuation Benefits. ⁶
Smelters' Union (or otherwise) . . .	£5	£1 6

Children, including step-children and adopted children (fill up as on p. 239).

Two children under sixteen, or full-time pupils or students.

Declaration (as on p. 258).

NOTES ON THE RETURN.—1. The form does not provide for adding up the total income. The reason is that the wages are for the quarter, but all the other items of income, if there be any other, are for the whole year.

2. The expenses are for the quarter only.

3. The £20 is the assessed rent *after* taking off the allowances for rates and maintenance.

4. While *interest* received from a Co-operative Society is to be entered, the 'dividend' on purchases is not.

5. The sums here entered are the gross sums, not the smaller sums which you paid to the creditors after deducting tax.

6. The figure here given is based on an actual case, but in your case the proportion may be different, and care ought to be taken to be correct. The Union officials will keep you right.

Assessment.

Wages for quarter ending 5th October 19....	. . .	£131 0 0
Expenses and boots, &c., as above ¹ . . .	. . .	11 0 0
		£120 0 0

Deductions :

Earned income relief ²	£12 0 0	
Marriage allowance ³	56 5 0	
Life assurance, &c. ⁴	2 16 6	
Children ⁵	15 15 0	86 16 6

Net assessment for quarter	£33 3 6
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Tax thereon at 3s. per £	£4 19 6
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Allowance for investment income⁶ being taxed at the normal rate of 6s. instead of at the reduced rate

of 3s. per £ ; relief, 3s. per £ on £15	2 5 0
---	-------

Tax payable	£2 14 6
-----------------------	---------

NOTES ON THE ASSESSMENT.—1. The deduction of £11 is (1) £10, the actual amount of the expenses for the quarter; and £1 (2) one-fourth of a boots and clothing allowance of £4 a year.

2. The £12 of earned income relief is one-tenth of the £120, being the net amount of the quarter's wages.

3. The £56, 5s. is one-fourth of the marriage allowance of £225.

4. The allowance of £2, 16s. 6d. is one-fourth of the annual expenditure on life insurance, £10, and superannuation benefits, £1, 6s.—together, £11, 6s.

5. The £15, 15s. is one-fourth of the annual allowance of £63 for two children, being £36 for the first and £27 for the other.

6. *Rate Relief*.—The £15 on which this relief is given is arrived at thus :

House as assessed to income-tax	.	.	.	.	.	.	£20
Less legal burdens as stated above	.	.	.	.	.	.	15
							£5
Taxed interests and dividends	.	.	.	.	.	.	10
							£15

It is here assumed that the weekly wage-earner has paid 6s. per £ on the house £20, and on the interests and dividends £10, but has deducted tax, also at 6s. per £, on paying the £15 of legal burdens.

This relief is usually given in the third or fourth quarter of the year.

If the loan is from a Building Society, see p. 211, and consult the Inspector.

The income-tax assessment on the house may in future be reduced to the £15 of legal burdens, in which case you would be entitled here to no relief on the £5. That £5 would, on the contrary, have to be dealt with as untaxed investment income.

II. PREVENTION FORM.

Claim for Exemption, Abatement, or Relief.

Official Form No. 38.

This is applicable to every one, whether liable or entitled to be assessed under Schedule D or not. It is not a claim for repayment; on the contrary, the purpose is to prevent assessment. It will be filled up in exactly the same way as the Partners' Returns on pp. 248–249. The declaration at the end of the statement of income is in the same terms as printed on p. 238. There are also sections for statement of life assurance premiums and children, housekeeper, and dependants. This form is useful in every case where the tax-payer is either liable for no tax at all, or at least not for the full 6s. per £, provided he is not at any rate filling up a return under Schedule D or E (No. 11 or No. 12), for if he is, he can obtain the same benefit under it; and provided he has some income which can be released from assessment—e.g. land, houses, shops, Government taxed income, or an annuity from an assurance company. If he has no such income, he must resort to a Repayment Claim.

III. REPAYMENT CLAIMS.

Failing the prevention method, the alternative is payment in the first instance, and then a Repayment Claim. Even if the prevention method is so far applied, it may well be that it does not give the full relief which is due; so that in every case the tax-payer should examine and weigh well whether there is not some balance remaining for obtaining which there is nothing for it but to send in a claim. It is not essential to state the exact sum claimed back.

In all the illustrations it is assumed that all tax has

been deducted at 6s. This is helpful as showing arithmetical proof of the accuracy of the calculations.

As repayment claims will have to be made for previous years, forms are given in the following pages adapted to the rules which were in force in 1919-20, as well as other forms applicable to the new rules introduced in April 1920.

Forms for 1919-20.

No. 1. Claim for Exemption, 1919-20.

	Income.	Tax.
1. Annuity from the X Insurance Company.	£40 0 0	£12 0 0
2. £500 5 per cent. War Loan stock (last year's figure)	25 0 0	
3. £200 ordinary stock of the X Company— 6 per cent. 'free of tax'	17 3 0	5 3 0
Total income and tax	£82 3 0	£17 3 0
Charges—None.		

NOTES.—1. Claim £17, 3s.

2. The annuity in the income column must be the gross amount *before* any tax deduction. £40 is therefore entered, although in fact you received only £28. You will probably, as the result of this claim, be able to arrange that in future the annuity shall be paid to you without deduction. See the Inspector of Taxes.

3. The War Loan interest is received without tax deduction.

4. The X Company's dividend 'free of tax' (see p. 175). You actually received only £12, but that is really £17, 3s. gross, less £5, 3s. tax; so you enter £17, 3s. income and £5, 3s. income-tax.

No. 2. Claim for Exemption through Allowances, 1919-20.

	Income.	Tax.
Annuity under the will of A. B. (name and address of acting trustee or solicitor to the trustees)	£100 0 0	£30 0 0
£1000 on mortgage by C. D. at 5 per cent.	50 0 0	15 0 0
£1800 on debenture of the X Company at 6 per cent.	108 0 0	32 8 0
£100 ordinary stock of the Y Company— 6 per cent. dividend 'free of tax'	8 11 6	2 11 6
Total income and tax	£266 11 6	£79 19 6
Charges—None.		

NOTES.—1. Allowances :

Scale	£120
Four children under sixteen, or full-time pupils or students	115
Two dependent relatives	50

285 0 0

The tax-payer will get back the whole £79, 19s. 6d. .

2. Dividend 'free of tax' (see p. 175). In this case the dividend actually received is £6, equal to £8, 11s. 6d. gross, less £2, 11s. 6d. tax.

3. No 'prevention' remedy is possible.

No. 3. Claim for Exemption except Legal Burdens, 1919-20.

				Income.	Tax.
House, No. 1 King Street, Newcastle-on-Tyne .				£40	£12
£1000 on mortgage by A. B. at 5 per cent. . .				50	15
£800 debenture of the X Company at 5 per cent.				40	12
£500 debenture stock of the Y Company, 4 per cent.				20	6
Total income and tax				£150	£45
Charges on Income.					
Nature.	Creditor.	Amount.	Tax.		
Ground rent .	(Name) .	£5	£1 10		
Mortgage interest, £300 at 5 per cent.	(") .	15	4 10		
Total charges and tax				20	6
Total income, less charges, and tax thereon .				£130	£39

NOTES.—1. Claim £39, being gross payment, £45, less £6 kept off the creditors.

2. In future the assessment on the house may be reduced to £20, being the amount of ground rent and mortgage interest.

No. 4. Claim for Scale Abatement and Graduation Relief, 1919-20.

Detail investments as in preceding forms.	Income.	Tax.
Total income and tax	£600	£180
Charges—None.		

NOTES.—1. Claim :

(1) *Scale abatement*, £100 at 6s. £30 0

(2) *Graduation Relief*.—The balance of £500 should pay

only 3s. 9d. (1919-20) instead of 6s. Get back 2s. 3d.

on £500 56 5

Total claim £86 5

Total claim—brought forward . . .	£86 5
This being deducted from the tax paid in first instance . . .	180 0
leaves an actual tax burden equal to 3s. 9d. on £500,	
which is	£93 15

2. Consider whether, according to the nature of the investments, any 'prevention' remedy is possible for the future.

No. 5. Claim for Various Allowances, 1919-20.

Page 2. Insurance.—Fill up the appropriate space as on p. 239. The premiums are assumed to amount to £100.

Page 2. Family Abatements.—Fill up the appropriate spaces. It is assumed there are a wife, four children under sixteen or full-time pupils or students, and two incapacitated dependent relatives.

Page 3. Income.

Detail investments as in preceding forms.	Income.	Tax.
Total income and tax	£900	£270
Charges:		
Interest to the X Bank, paid without deduction of tax	100	
Total income, less charges, and tax	£800	£270

The allowances, and the tax (at 6s.) reclaimable in respect of them, are—

		Tax.
1. Wife	£50	£15 0 0
2. Four children	115	34 10 0
3. Two dependants	50	15 0 0
4. Life assurance	100	30 0 0
	<u>£315</u>	
5. Bank interest	£100	30 0 0
6. Graduation relief of 2s. 3d. on £485 (£800, less £315)		54 11 3
Therefore insert		<u>£179 1 3</u>

in the declaration at the top of page 2 as the amount claimed.

It is here assumed that all the gross income is from investments and all taxed before receipt at 6s., which is £270 0 0
Deducting the claim 179 1 3
leaves an actual tax liability of £90 18 9
which was (1919-20) the appropriate unearned rate of 3s. 9d. on £485.

No. 6. Claim for Graduation Relief only, 1919-20.

	Income.	Tax.
Annuity from the estate of my late husband, A. B. (name and address of acting trustee or solicitor to the trustees)	£1000	£300
Life-interest under the will of my late father, C. D. (as above; the investments must be detailed) .	800	240
140 £10 shares in the X Company—10 per cent. dividend 'free of tax'	200	60
Total income and tax	£2000	£600
Charges—None.		

NOTES.—1. As the income, though from investments, does not exceed £2000, the rate (1919-20) is 5s. 3d., whereas 6s. has been suffered. The claim is for 9d. per £ on £2000 75
leaving an actual tax burden of 5s. 3d. on £2000, which is £525

2. X Company's dividend 'free of tax' (see p. 175). In this case the actual dividend received was £140, equal to £200 gross, less tax £60.

Forms for 1920-21.

No. 1. Claim for Exemption, 1920-21.

Same as No. 1. on p. 264.

No. 2. Claim for Exemption through Allowances, 1920-21.

	Income.	Tax.
Annuity under the will of A. B. (name and address of acting trustee or solicitor to the trustees)	£130 0 0	£39 0 0
£1000 on mortgage by C. D. at 5 per cent. .	50 0 0	15 0 0
£1800 on debenture of the X Company at 6 per cent.	108 0 0	32 8 0
£100 ordinary stock of the Y Company—6 per cent. dividend 'free of tax' . .	8 11 6	2 11 6
Total income and tax	£296 11 6	£88 19 6
Charges—None.		

NOTES.—1. Allowances :

Personal £135

Four children under sixteen, or full-time pupils or students . . . 117

Two dependants 50

302 0 0

The tax-payer will get back the whole £88, 19s. 6d.

2. Dividend 'free of tax' (see p. 175). In this case the dividend actually received is £6, equal to £8, 11s. 6d. gross, less £2, 11s. 6d. tax.

3. No 'prevention' remedy is possible.

No. 3. Claim for Exemption except Legal Burdens, 1920-21.

Same as No. 3, p. 265.

No. 4. Claim for Personal Allowance and Rate Relief, 1920-21.

Detail investments.

	Income.	Tax.
Total income and tax	£600	£180
Charges—None.		

Claim :

1. Personal allowance, £135 at 6s.	£40 10
2. Rate relief on £225 at 3s., to bring tax down from 6s. to 3s.	33 15

Total claim £74 5

This being deducted from the tax paid in first instance 180 0

leaves an actual tax burden of £105 15

arrived at thus :

£135 free	£—	
225 at 3s.	33 15	
240 at 6s.	72 0	105 15
<u>£600</u>		

Note that this liability is £12 more than under the 1919-20 rules, as shown in Claim No. 4 on p. 265.

Consider whether, according to the nature of the investments, any 'prevention' remedy is possible for the future.

No. 5. Claim for Marriage Allowance and Rate Relief, 1920-21.

Detail investments.

	Income.	Tax.
Total income and tax	£600	£180
Charges—None.		

Claim :

1. Marriage allowance, £225 at 6s.	£67 10
2. Rate relief on £225 at 3s., as in preceding form	33 15
Total claim	£101 5

This being deducted from the tax paid in first instance 180 0

leaves an actual tax burden of £78 15

arrived at thus :

£225 free	£—	
225 at 3s.	33 15	
150 at 6s.	45 0	78 15
<u>£600</u>		

Note that the liability is £15 less than under the 1919-20 rules, as shown in Claim No. 4 on p. 265.

Consider as to 'prevention.'

No. 6. Claim for Various Allowances, 1920-21.

It is assumed that the facts are the same as in Claim No. 5 on p. 266, and the directions at the top of that form apply here also.

Detail investments.	Income.	Tax.
Total income and tax	£900	£270
Charges : Interest to the X Bank, paid without deduction of tax	100	
Total income, less charges and tax . . .	£800	£270

The allowances, and the tax reclaimable in respect of them, are—

	Allowances.	Rate.	Tax.
1. Marriage	£225	6s.	£67 10
2. Four children	117	6s.	35 2
3. Two dependants	50	6s.	15 0
4. Bank interest	100	6s.	30 0
	£492		
5. Rate relief	225	3s.	33 15
6. Life assurance	100	3s.	15 0
	£817		
			Total claim } £196 7

It is assumed that all the gross income is from investments and all taxed before receipt at 6s., which is £270 0
Deducting the claim 196 7
leaves an actual tax liability of £73 13
arrived at thus :

£325 (life assurance and rate relieved) at 3s	£48 15
492 (other allowances and bank interest) free	—
83 (balance) at 6s.	24 18
<u>£900</u>	<u>73 13</u>

Note that this liability is £17, 5s. 9d. less than under the 1919-20 rules in the same circumstances, as shown in Claim No. 5. on p. 266.

**No. 7. Claim by Lady (1920-21) in the Same Circumstances
as No. 6 on page 267, 1919-20.**

The lady in both cases is a widow, has four children under sixteen or full-time pupils or students, has a relative as housekeeper or nurse, and maintains two relatives.

Total income and tax, as on p. 267 . . .	Income.	Tax.
	£2000	£600

Claims :

	Allowances.	Rate.	Tax.
1. Personal	£135	6s.	£40 10
2. Four children	117	6s.	35 2
3. Housekeeper	45	6s.	13 10
4. Dependent relatives	50	6s.	15 0
	£347		
5. Rate relief	225	3s.	33 15
	£572		Total claim } £137 17

This deducted from the tax borne at the source 600 0
leaves an actual tax liability of £462 3
arising thus :

£347 (allowances) free	£—	
225 (rate relieved) at 3s.	33 15	
1428 at 6s.	428 8	£462 3
<u>£2000</u>		

Note that this liability is £62, 17s. less than under the 1919-20 rules, as shown in Claim No. 6 on p. 267. This is mainly owing to the abolition of the income-limit on family allowances.

A LAST WORD.

In conclusion, we give a few words of advice.

1. Fill up, and send in, returns promptly on receipt.
2. Scrutinise every assessment notice. If in any doubt, fill up the notice of appeal and send it in at once. That keeps things open and prevents your being shut out because too late. Then see the Inspector, and no doubt things will be adjusted to your satisfaction. The days for appealing run from the service of the assessment notice, not from your receiving it.

3. Don't make the error of thinking that the collection of the tax in two instalments gives you two opportunities of appealing.

4. Don't make the mistake of thinking that any error in the assessment can be put right at the end of the year on a repayment claim. Mistakes here are frequent, and usually fatal.

5. Send in repayment claims at regular dates, at least once a year. You need not necessarily (and better not) wait till April. You may prefer half-yearly claims.

6. Keep copies of all returns, appeals, and claims.

7. Check demand note with your return.

• 8. Check repayment with your claim.

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